Price 1/6 **JUNE 1951**

ECONOMIC DIGEST

CONTENTS

Published monthly in London for the

ECONOMIC RESEARCH COUNCIL

Our Service to Readers

Scope of Economic Digest: *Economic Digest* was created by the Economic Research Council to meet an urgent practical need. It became evident that members of the Council, and indeed all who are concerned with economics and political science either professionally or as leaders of public opinion, were defeated by the sheer mass of articles, lectures, memoranda, conferences and books. They desperately needed to have the vast output, from all parts of the world, scrutinised and sifted, and their attention directed to the really significant items.

That task was tackled by the Economic Research Council on their behalf. The outcome was *Economic Digest*, which quickly found a world-wide readership spreading far beyond the members of the Council. If it is not the perfect solution of the problem, it has at least proved a vast time-saver and an enomous help to professional economists, politicians of all parties, administrators, men of affairs, and students.

The Economic Research Council is a non-profit making organisation in the educational field, and is so recognised by the British Treasury. It offers *Economic Digest* as a practical contribution to education in economics and political science.

Readers' Questions Answered: It is possible to present in *Economic Digest* only a small part of the mass of reading matter—reviews, speeches, private papers, as well as newspapers, magazines and books from all over the world—examined by the Editors and staff every month. The task of covering a vast field, however, provides the Editors with material which they believe can be of great value to certain readers.

Subscribers are therefore invited to submit any questions concerned with economic facts, or to submit their own writings or theses for factual criticism which, for obvious reasons, cannot be elaborate.

Readers are also invited to comment on the magazine. Suggestions designed to improve its value are always welcome.

Letters of inquiry should include stamped addressed envelope for reply and be addressed to The Editors, Economic Digest, 18 South Street, London, W.1.

ECONOMIC DIGEST

JUNE, 1951 VOLUME IV NUMBER SIX

Joint Editors: Sir Geoffrey Bracken, K.C.I.E., C.S.I. H. S. Goodwin

SEEN IN PERSPECTIVE *by GRAEME S. DORRANCE*

Can Government Spending be Cut?

A brief glance at the *Economic Survey for* 1951 (Cmd. 8195) and the *National Income and Expenditure* 1938-1950 (Cmd. 8203) White Papers immediately brings certain striking facts to light.

(1). More than three-quarters of our national output is produced by persons and concerns other than the central government, local authorities or nationalised industries. In other words, ours is still a predominantly private-enterprise economy.

(2). More than thirty per cent. of our net income is being absorbed by taxation. In other words, taxation is now beyond any level hitherto held to be consistent with the maintenance of economic equilibrium.

(3). A large proportion of this impost is raised by indirect taxation. In other words, we do not directly and consistently know what we are paying towards the maintenance of our government.

All of these are grounds for concern to economists, politicians, and citizens with a more realistic outlook on the affairs of everyday life.

If, however, one looks at the total picture of government accounts and accepts the estimate of government expenditure as inviolable, one is struck by a completely different consideration: that probably the present level of taxation is not severe enough. If therefore we accept the current level of government outgoings, we are probably faced with serious inflationary dangers, because the yield of our present taxes will not be great enough to meet all the demands placed on them. At the same time this level of taxes is so high that it imposes burdens on the economy which may indirectly lead to inflation.

It therefore becomes necessary to press for reduction of government expenditure. But where can cuts be made?

The basic outline of this expenditure for 1951 is given in Table I. Obviously the largest element in the total is expenditure on real goods and services. This is analysed in Table II.

Here, it must be admitted, is our first disappointment. One must undoubtedly call for economies in the administration of the defence programme; Yet its total size is none too great. If savings can be made they should be ruthlessly executed, but the resources so saved should be devoted to other uses. What can be saved on unnecessary salutes to gratify the vanity of admirals should be spent on gunnery practice to improve the fighting efficiency of seamen!

Similarly with the Health Service. Everyone knows that there is blatant waste here. Yet we also know that further funds could be wisely spent. We must be ready to save on upper dentures and ensure that no more

TABLE I

Government Expenditure 1951

	(£m.)
Current Expenditure on goods and services	1,940
National Debt interest	595
Subsidies	445
Social security payments and other personal transfers	345
Grants to local authorities	390
Transfers to National Insurance funds	55
War damage payments and other capital transfers	130
	3,900

medicinal olive oil is used for French dressing. But any such saving ought to be used to pay the doctors the standard capitation fee of 18/- which they were promised, unless some more sensible way can be found of remunerating them.

Similarly when it comes to the government's overseas expenditure. Undoubtedly too much money has been spent on grandiose African Utopias. Yet it also appears probable that more could wisely be spent on the defence of the Levant.

All these totals then must unfortunately be accepted as minima.

Only the " other " £230m. remains. Similar items can be found here. Probably half the total is untouchable. Therefore there is probably only about £100m. where drastic economies could be made. Here if one were to reduce expenditure by twenty per cent. (a relatively large amount) only £20m. would be saved. One should not scoff at " only £20m ". It is equal to the total income of many cities in this country.

If such economies can be made, they should be forced on Whitehall. Yet one must look further for the imperative reductions which must be instituted if economies of the magnitude demanded are to be found.

The next item in Table I, national debt interest, is fixed by legislation and previous borrowing commitments, plus any borowing that may prove necessary in the current year. This latter item should prove small in view of last April's budget. Economies could only be found here if the government were to default on its legal obligations. We have not yet reached this stage and must not allow ourselves to be forced to it.

Similar considerations apply to the final item in Table I: war damage payments and other capital transfers. The penultimate item: transfers to National Insurance Funds, is a mere bookkeeping entry. As the Chancellor pointed out in his budget speech, any reductions here are of no economic significance. This leaves only the remaining three items, totalling £1,180m.

If one accepts as irreducible the maximum imposed by government policy on subsidies, it follows that no economies can be made here.

Many considerations similar to those applying to debt interest apply to the next item: social security payments and other personal transfers. In large part, they are the results of prior commitments. Yet some economies might be made. Their composition for 1950 is outlined in Table III. Given the present level

TABLE II

Government Expenditure on Goods and Services 1951

	(£m.)
Defence	1,250
Health Services	375
Overseas Services	80
Other	235
	1,940

of prices and the fact that social security payments scales were drawn up before the recent price rises had taken place, it is impossible to conceive of any reductions in the payments for assistance, welfare foods and tobacco coupons. All the other items except the educational and scientific grants are the result of existing legislation and cannot be reduced.

It is only in the field of "cultural" assistance that reductions can be made. Yet even a Draconian policy here will not save £5m.

To consider the next item—grants to local authorities—one must look at the total picture of local authority accounts. If their expenditure remains fixed and their grants are cut, rates will have to go up and we shall only change the form of our taxation. Their actual expenditure must be cut if anything is to be gained here. Table IV outlines their 1950 expenditure. With today's rising prices, it is unlikely that great economies can be made in local government expenditure on goods and services.

Imposition of a ceiling on local authorities' expenditure would at least enable us to call a halt to the steady rise in the grants received by them in recent years (1946: £280m. 1947: £301m. 1948: £319m. 1949: £336m. 1950: £352m.). It would also force them to reconsider their housing policies. If it is impossible to reduce the existing level of housing subsidies, a change in policy could at least prevent them from rising further. It might also reduce the volume of new building, which, though disappointing to prospective council house tenants, would increase the resources available for defence building. We might be able to spare some workers and materials for the building of air raid shelters.

TABLE III

Social Security Payments and Other Personal Transfers 1950

	(£m.)
Non-contributory Pensions	25
Old - age pensioners' tobacco coupons	11
Family Allowances	64
Milk and welfare foods	36
War pensions and service grants	79
Grants for universities, sciences and the arts	18
Scholarships and maintenance allowances	14
Miscellaneous transfers	26
Other assistance	58
	331

TABLE IV

Local Authorities Revenue Accounts 1950

	(£m.)
Current expenditure on goods and services	531
Housing subsidies	35
Outdoor relief	34
Scholarships	10
Debt interest	67
	677

So, after much searching, we have found £25m. of government expenditure which might be reduced in present circumstances. *Is it then true that no further economies can be made? It is, if we accept all the assumptions outlined above. We must then begin to question the assumptions.*

In this review we have found a strong case for each of the assumptions, with the exception of those applying to subsidies. What are the facts here? In particular, what are the considerations relating to food subsidies?

These will be reviewed in a note in *Economic Digest* next month.

CORRECTION:—*In Table I in Mr. Dorrance's article last month (page 186) the figure given for "Net Taxation of Capital" should be —55 (not 55, as printed). It was treated as a minus quantity in the total.*

Eds. E.D.

Industrial Capital Withering
Through Excessive Taxation

By S. P. CHAMBERS

Under conditions of inflation, the Chancellor, like the accountant, may see as a profit what the economist knows is a loss.

IN ANY CONSIDERATION of industry's ability to cope with the tasks laid upon it in providing armaments or exports, or maintaining our standard of living, the need for capital takes a high place. Industry does not become efficient merely as the result of speeches saying how important it is. Industry needs new capital. It needs resources with which to replace obsolete and worn-out plant and to expand production whether for war purposes, for current consumption, or for export. Here the budget is at its weakest. The budget is not a truly anti-inflationary budget and so long as there is a steady, if slow, process of inflation the danger of industrial capital shrinking instead of expanding is considerable.

The danger arises mainly from excessive taxation but there are other causes which have their origin in the use of the pound sterling as a unit of account which is assumed to be constant over a period of years when, in fact, it is not. This matter is so important and the seriousness of the consequences of a widespread failure to understand its significance can hardly be overrated at the present time.

Two Classes of Capital Assets

The erosion of capital during a period of steady inflation can be illustrated by reference to two classes of capital assets. First there is fixed capital in the form of plant and machinery, and there is working capital in the form of stocks. The problem is common to all capital assets but for the present purpose it is convenient to deal with these two classes alone—plant and machinery, and stocks.

Under normal accountancy practice, and current taxation laws, it is possible for a company to show a profit, to pay taxes and to declare a dividend out of that profit, even though in physical terms the whole of its capital is less than what it was at the beginning of the period, and the cash in the till is also lower.

So far as stocks are concerned, this position arises because of the rule that the stocks at the end of the period are normally taken at the cost or market value, whichever is the lower. As the cost during the year, or the market value at the end of the year, may be much higher than the value of the corresponding stock at the beginning of the year, it is possible for the year end stock to show the same figure as that at the beginning of the year, or even a larger one, although physically the stocks are much smaller. This has been happening extensively with stocks of such commodities as wool and non-ferrous metals.

To an economist the profit of a period can only be arrived at after provision has been made for the maintenance intact of the capital employed in the business.

To have capital at market prices at the end of the period, equal to the *value* of the capital at the beginning of the period, is not necessarily to

From Address on "The Budget—Its Implications for British Industry," British Institute of Management, London, April 30, 1951

maintain the capital intact. Perhaps the simplest definition would be to say that capital has been maintained intact, if at the end of the period it is equal physically to the capital at the beginning of the period, and is capable of the same total physical production as before. Any industrial concern which needs substantial stocks and materials in its manufacturing activities cannot be said to be maintaining its capital intact if these stocks and materials at the end of the period are insufficient for the maintenance of the same volume of production as before. The present method of computing profits enables a concern whose real capital has shrunk during the year to distribute out of the remaining capital substantial sums by way of dividends and taxation. *Inflation can cause the results of a year to be shown as a profit, when in reality there is a loss in any sense understood by an economist, and cause these results to be shown as a large profit when in reality the profit is moderate or small.*

So far as fixed assets are concerned if, over the period of the life of an item of plant, there is reserved out of the gross takings of the business sums which will at the end of the life of the plant be sufficient to replace that plant, it may be said that the capital is being maintained. In normal practice, however, the sums built up as a provision for depreciation are limited to the original cost of the plant, and as costs have since pre-war days doubled, or trebled, the reserve built up is sufficient only to provide a half or a third of the money needed to replace the plant.

According to orthodox accountancy principles, and the rules followed for taxation purposes, £100 represented by an investment in a plant in 1939 is the equivalent of £100 in cash in 1951. Plainly, if it requires £300 to replace the asset then £300 is needed to-day in plant and machinery as the equivalent of £100 in 1939. *To this extent orthodox accountancy principles and taxation rules conspire to overstate profits and to pretend that capital is being maintained when in fact it is not.*

F.B.I. Enquiry into Capital

In this connection a sample analysis has been made by the F.B.I. of figures supplied by eighty companies representing a fair cross-section of manufacturing industry. The purpose of the enquiry was to ascertain to what extent capital was, in fact, being maintained by British industry. The enquiry covered both fixed assets and current assets. The results are both striking and disquieting.

There is always the danger of criticism that a relatively small sample may not prove to be representative. The total assets of the companies covered by the enquiry amounted to just over £1,000 million at the end of 1949.

I cannot give you to-day all the figures produced by this enquiry, but I can at least summarise the results. *The total amount of fixed assets by the end of 1949 in physical terms was slightly less than that of the fixed assets in* 1938. *This reduced amount of fixed capital had to cope with a much larger physical turnover. Current assets moved in the same direction, that is to say, downwards both in physical terms and as a proportion of turnover.* In 1938 current assets covering stocks, debtors and cash represented 47% of the turnover, while in 1949 they represented 42%. Of these current assets it is significant to observe that cash fell from 13% of turnover to 7½%.

The figures for fixed assets can be looked at yet another way. The gross cost of replacing the assets in 1949 was double the original cost, and the depreciation provision made since 1938 is only half of what was necessary to provide for the replacement of the assets at current replacement costs.

The total depreciation provided up to date in respect of fixed assets was only 45% of what was necessary on a replacement cost basis.

The accuracy of these figures may be challenged, but no reasonable margin of error can enable us to escape from the important conclusions to which they point. *Industrial capital has not been maintained and the reserves in industry are not adequate to provide for the replacement of the fixed assets and for the financing of stocks at higher prices.*

Since 1949 the position has further deteriorated and any suggestion that profits during 1950 have been excessive is based upon a complete misunderstanding and miscalculation of what is necessary to maintain capital in British industry.

This matter is, of course, as important to workers in industry as to management and shareholders. The running down at a rapid rate of cash resources at a time when fixed and current assets are declining is a clear indication that inflation and excessive taxation are taking a toll of capital, which is masked by an ever-rising cost of ever-diminishing real capital.

One reason why this loss of capital has not so far produced a crisis is that the end of the war left most industrial enterprises with substantial holdings of cash and Government securities, which have been drained away steadily over the last five years. Cash, which represented 19% of total assets in 1945, represents only 9% to-day. If this process continues unchecked, we are likely to see at least certain sections of British industry in great difficulty within the course of the next year or two.

Taxation beyond a certain level is inflationary and the only answer is a cutting down of Government expenditure.

Although we are told that Government expenditure cannot be cut, I am convinced, personally, that it will be cut, and cut drastically, by the force of economic circumstances and that the hour of reckoning is not far distant.

Steps in P.A.Y.E. Scales

Commenting on the acute disincentive influence of P.A.Y.E. at certain points of extra earning, 'Chartered Accountant,' in a letter to the *Manchester Guardian* (May 4, 1951) gives the following figures showing incidence of income tax on incomes up to £2,000 a year. They make the precise points of violent disincentive clear.

	Exempt up to £	Then at 12% on excess up to £	Then at 22% on excess up to £	Then at 38% on excess up to £
Single person	137½	200	450	2,000
Married person	237½	300	550	2,000
Married, 1 child	325	387½	637½	2,000
Married, 2 children ...	412½	475	725	2,000
Married, 3 children	500	562½	812½	2,000

The Raw Materials Crisis — I

By Sir Frank Nixon

We cannot escape from planning, but we must have the right plan.

The urgency and importance of the problems of raw materials supply have come upon most of us rather suddenly. The improvement in our resources, largely due as it is to the export at rising prices of great quantities of raw materials to the U.S.A. and other countries, seems to have blinded the eyes of many observers to the great changes that were taking place in the business of dealing in commodities. And when the gravity of these difficulties was properly appreciated we still tended, for a long time, to regard them as temporary problems, created mainly by U.S. and other stock-piling; and to assume that when these accumulations have been completed, supplies will be more abundant and prices, if not lower, will evolve on more orderly lines.

This view however is not taken by the wiser heads in the commodity business, or in other circles interested in these important problems. It is evident, indeed, that the building up of stocks over a fairly short period by various Governments has accentuated scarcities and pushed up prices. It is clear too that the actions and reactions of U.S. traders as, generally speaking, the biggest buyers, have contributed greatly to the sharpness of market fluctuations. It is beyond doubt, also, that the interventions of Governments—whether as sole buyers, as operators of rationing schemes, or merely as somewhat ineffective and disgruntled observers—have confused the situation.

But behind all these large variations there is observable a steady change in the position of the main commodities. Normal demand is steadily overhauling and sometimes already outstripping supply. The steady and considerable growth in the world's population; the great and continued development of their own industries by countries that have been, until recently, almost exclusively agricultural; the constant increase in the great industrial countries of mechanisation and elaboration of industrial processes; the steady augmentation amounting to several per cent. per annum in the productivity of most of the industrial countries; above all the phenomenal increase in U.S. industry (which has roughly doubled in capacity in the last 10 years)—these are all trends that demand more and more raw materials and they are trends of an enduring character which will persist when stock-piling and even rearmament are completed.

Not Ephemeral Problems

Rearmament indeed will intensify the permanent demand for most raw materials, since it is the avowed purpose of the U.S. rearmament programme not only to increase production, during the next three years, by nearly as much as the total production of the U.S.A. before 1939, but to maintain this vastly augmented capacity as a base-line from which American industry will again resume its normal annual expansion on the habitual American scale.

It seems, therefore, that the commodity problems are no ephemeral problems caused by stock-piling and rearmament. The indications are that the industrial conquest of nature

From Address, London Chamber of Commerce, April 26, 1951

has reached, or is reaching, another of its major turning points, and that the abundant supply of raw materials which grew up all over the world during the 19th century, mainly in response to British initiative, can no longer be relied upon. I suggest that we are entering on a period, probably a long period, when the economic problems and policies of the great nations will be increasingly influenced and maybe dominated by the need to ensure the production and distribution of adequate supplies of commodities at reasonable prices or to find suitable substitutes for them.

Shall we be capable of producing the vast amounts of raw materials of all kinds for which the world is likely to be clamouring during the next generation? As things stand today the answer is almost certainly No; for the reason that we are living in a planned economy.

A Raw Materials Age

This theory of the planned economy dominates public opinion and the general outlook on economic questions far more, it seems to me, than any previous economic theory has done. It is powerfully, one may say blindly, supported by organised labour in this country as by the New Dealers in the U.S.A., as well as by many other thoughtful people in this and other countries.

Yet it seems to me that this is a theory for an Industrial Society in an Industrial Age, whereas we need a theory for Industrial Societies in what is fast becoming a Raw Material Age.

The central doctrine of modern economics, if I may summarise it in my own words, is that by adjusting the relations between saving and investment, great expansions of activity can be controlled and great depressions prevented or corrected; so that a high degree of stability in trade and employment can be maintained. The only authority which can exercise this control over investment and saving is evidently the Government. And it is from this doctrine that all the theory of Governmental planning of society takes its rise.

But a Government implies a country and countries differ vastly from each other.

Limits of State Power

The pure theory of Keynesian economics, which makes national prosperity dependent on the Government's control of saving and investment, may work in a country such as the U.S.A. which is largely self-supporting — pretty well immune from outside influences. In such a country, which produces most of the raw materials that its industries require, the Government may be able to prevent the development of a serious recession by appropriate measures, chiefly financial. But in a country which must live on international trade and, in particular, must import raw materials to keep its major industries going, there is a definite limit to the things that can be achieved by financial devices, even supplemented by other forms of Government activity such as rationing and controls.

Government may spread the available resources more evenly over all sections of the population. It may create more jobs. It may even—which is a different thing—create more work. But it can only create more output, more material wealth, if it has the raw materials to start with.

So this is the position. Our lives in Britain to-day are governed by a plan—but it is a domestic plan for the domestic problems of twenty years ago—whilst some of the major

difficulties that confront us are international in their nature and quite different in kind from the unemployment problems of the past.

Many people would say "Abolish planning and set the business world free." I do not suppose however that they would suggest the abolition of Exchange Control, so long as present currency difficulties remain. Nevertheless it might be thought that inside the sterling area we could abolish all planning and controls. This would allow the free movement of capital between any two sterling countries.

But this is highly unlikely. If we consider the demand that might arise, for instance, for capital for investment in mining propositions, I would remind you of the old saying that a gold mine is a hole in the ground owned by a liar. In the past it is only out of the wasting of scores of millions of money on such frauds and mistakes that sound schemes have been discovered and developed. In other words the freedom to risk money, in large amounts, on exploration and development, and the salutary wisdom that comes from the inevitable losses, are essential to progress—not only in mining but in all commodities.

No doubt the necessary expansion of our raw material supplies over the coming years will require the investment of large amounts of capital. But, under the prevailing modes of thought, such investment is not likely to be allowed, or encouraged, except as part of an overall plan.

Inescapable Planning

In fact we shall not get rid of some planning, whatever political party may come to power in this country. The economic advisers of any Government have for the most part been nurtured in the idea of planning and could not be expected to take the risks of offering advice which was out of keeping with the planning idea. And behind them, and menacing every Government, is the abhorred shape of mass unemployment. Planning is the only recognised (if unproved) remedy or preventive for this catastrophe and it has captured the imagination of this generation. We are ruled by the fear of 1933.

But we do not need to be tied to a bad plan as at present. It should not be too difficult to recognise that the chief fault of the present plan, as a plan, is that it is applied to an inadequate area; and to remedy its main error what is required is to extend the plan to cover the sterling area.

Strong economic arguments point in that direction. When the U.K. is depressed, the raw material producers of the Commonwealth are depressed also. When we prosper so do they, for we are, year in and year out, their best and most reliable market. The fact that we all use the same currency, which is freely transferable throughout the sterling area, and is now linked with Europe through the E.P.U., gives them ready and constant access to all the resources of the Commonwealth and of Europe. A plan for working together to finance the sterling area in bad times and keep it sane and steady in periods of great prosperity, should thus, to a large extent, be "doing what comes naturally."

What I am suggesting is that, to meet the economic problems of the next 25 years, we should proceed to a much closer harmonising of our affairs with those of the Commonwealth and the sterling area.

The justification is to be found in the necessity for combining some orderly arrangement for the pro-

duction of essential raw materials, with overall planning in favour of full employment.

This solution goes far beyond the realm of economics and involves considerations much more profound and dignified than those of economic theory.

Planning for Commonwealth

The vast territories of the Near and Far East and of Africa, with their hundreds of millions of inhabitants, are already and will increasingly be the scene of the greatest and most difficult problems of our epoch. They have already begun to react, in a hundred different ways, to the influences of western industrial civilisation. These developments were increased and intensified by the war and are being multiplied and extended by the material prosperity caused by the demand for their products. The inhabitants are seeking for greater material well-being.

To promote the well-being of these territories—to ensure that enlightenment and prosperity for stability and progress, not for anarchy or communism—is the greatest task of our times. Financially something may be done on the lines of the Colombo Plan, and more perhaps through the high prices now being obtained for their produce. But the curse of easy money lies with particular weight on young and undeveloped peoples. If they are to be carried up on to-day's wave of prosperity only to drop into misery and depression in a fairly near future—according to the vagaries of American purchasing — the social problem could be immensely increased and the tasks of administration rendered nearly hopeless. In fact, financial plans in themselves would probably tie these territories to the economy of the U.S.A., which has not in the past inspired unlimited confidence in its stability. Even a guarantee to purchase certain quantities of materials at certain prices over the next few years —supposing such a guarantee were forthcoming and should be satisfactory—would not do much to diminish these dangers.

Over a long period—and this is a long period affair—the problems are those of social conditions and local administration at least as much as of finance, and the true lines of development must surely be to treat each territory as a responsible entity harnessing finance to the tasks of administration and social and economic progress—and to link up the different parts of the Commonwealth as closely as possible, so that the wisdom and experience and resources of the whole may be utilised to the utmost for each of the parts.

Let us plan more for the Commonwealth as a whole, so rich in its various resources, and try a little less to make plans for our precarious little island economy.

The Raw Materials Crisis — II

Taking a Measure of the Present Price Inflation

By Oscar Hobson

How big is this present wave of price inflation by comparison with the previous waves which have buffeted this unfortunate generation? So far as the period since 1939 is concerned the answer is fairly easy to give, for there are available two comparable "sensitive" wholesale price index numbers for the United States and this country, respectively Moody's and Reuters. In the table overleaf are given the values of these indices for January 1 and June 30 in each year, with the percentage change over the six months.

The table makes it quite clear that so far as dollar raw material prices are concerned the percentage rise in the second half of 1950 was substantially greater than in any previous six months during and since the War, with the single exception of the second half of 1946. That was the period of economic decontrol in the United States and as a matter of fact one-third of the rise in the index over the six months took place on the first day, July 1, 1946, which was the date of the release of prices from control. Furthermore, the rise during the whole year 1950, namely 46.8 per cent., was decisively greater than the rise during any twelve months of the war and post-war years. It easily overtops the previous two steepest rises, namely 40.8 per cent. in 1946 and 31.2 per cent. in the last half of 1940 and the first half of 1941.

As regards the sterling index, the position is a little more complicated. The upswing in the second half of 1950 was definitely less steep than that in the second half of 1939, which, however, was partly accounted for by the devaluation of the £ at the beginning of the War. And the upswing over the whole of 1950, namely 24.9 per cent., is fractionally less than the 25.9 per cent. of 1946. Nevertheless, if we take the eighteen months' period July 1, 1949, to December 31, 1950, we have a total increase of 46.1 per cent., which easily exceeds that of any comparable period. The devaluation of the pound in September, 1949, is, of course, partly responsible for this but that does not alter the fact that in this country, as in America, the current movement so far—as the last line of figures shows, it still continues though it now shows signs of halting—has lifted the level of basic material prices by a round 50 per cent. above that prevailing before it began.

It is perhaps worth noting, parenthetically, the divergence of the British and American indices in 1948. By the beginning of that year the upsurge of prices which followed the War and was accelerated by the decontrol decision in the middle of 1946 had exhausted itself in America, and an eighteen-months-long recession had set in. In Britain, however, the upswing continued through 1948 and was only arrested in the first half of 1949 by the Crippsian income-standstill policy. It was our failure to bring the upswing to a halt in 1948 that forced upon us the devaluation decision which we now so fervently wish we had been able to avoid.

If we attempt the comparison with the price movements of the First World War period we have to be content with somewhat less exact results.

From "The New Commodity Inflation," Lloyds Bank Review, London, May, 1951

1931 = 100	Moody's (U.S.A.) Index Number	Moody's (U.S.A.) Percentage Change in Half-year	Reuters (U.K.) Index Number	Reuters (U.K.) Percentage Change in Half-year
		%		%
1939—January 1	143.6	—	139.8	—
June 30	142.8	− 0.5	139.5	− 0.2
1940—January 1	169.4	+18.7	173.5	+24.4
June 30	154.5	− 8.8	172.2	− 0.8
1941—January 1	171.9	+11.3	179.9	+ 4.5
June 30	202.7	+18.0	181.7	+ 1.0
1942—January 1	220.0	+ 8.6	186.4	+ 2.8
June 30	230.4	+ 4.8	186.6	+ 0.1
1943—January 1	240.2	+ 4.3	193.9	+ 3.9
June 30	244.0	+ 1.5	200.1	+ 3.2
1944—January 1	247.5	+ 1.5	204.2	+ 2.0
June 30	248.9	+ 0.6	220.3	+ 7.9
1945—January 1	254.8	+ 2.4	220.3	0
June 30	256.2	+ 0.6	230.2	+ 4.5
1946—January 1	264.7	+ 3.3	245.6	+ 6.7
June 30	289.7	+ 9.5	271.2	+10.4
1947—January 1	372.7	+28.7	309.2	+14.1
June 30	403.5	+ 8.3	335.9	+ 8.6
1948—January 1	452.1	+12.1	360.2	+ 7.2
June 30	436.0	− 3.5	386.0	+ 7.2
1949—January 1	390.6	−10.5	404.9	+ 4.9
June 30	332.7	−14.8	396.6	− 2.1
1950—January 1	346.7	+ 4.3	463.6	+16.9
June 30	406.1	+17.1	494.5	+ 6.7
1951—January 2	508.9	+25.3	579.4	+17.2
February 28	524.3	+ 3.1*	624.0	+ 7.7*

* Change January 2 to February 28

It seems fair, however, to make the following statements: (1) the present rise in prices is greater than that experienced in any previous equal period since 1939; (2) though it has not, as yet, continued as long as the upward movement of 1915-17, its gradient has been steeper; (3) it compares closely as regards gradient with the famous inflation of 1919-20.

In making that comparison, however, something else must be said. The commodity boom of 1919-20 was followed by the slump of 1920-1. Whatever its inconveniences, that slump had the effect of, as it were, cutting off the peak of the cost-of-living curve; it greatly reduced the extent of the consequential adjustments in retail prices and wages and salaries which would have been necessary had it not occurred. Unless

a similar slump should overtake the present commodity price boom there will be no short-circuiting of the adjustment process. Unless basic commodity prices not only stop rising but suffer a major reaction, that painful process will be long-drawn-out and exhausting.

Looking back and being wise after the event, it seems clear that if two things had been done, which were not done, the present rise in commodity prices could at least have been kept within much narrower bounds. The first thing is that the machinery for international allocation of scarce materials ought to have been set up much earlier. It very quickly became apparent that to continue with previous official stock-piling programmes in the market conditions which developed after the Korean crisis was a foolish and ultimately ruinous proceedings.

From the extent of the recent price rise and the wide range of the commodities which it has (however unevenly) affected, it is clear that the cause, or rather the *conditio sine qua non*, of the rise was monetary inflation. It is a sombre thought that despite the great advances in economic analysis of the last thirty years, despite the concentration of thought that has been brought to bear on these problems of monetary control, despite — one may add — the oft-repeated boasts of some schools of economic and political thought that these problems have been solved, the world has failed so completely to cope with this situation. The reason lies mainly in the falsity or at least one-sidedness of the economic doctrine which has been so assiduously propagated, in season and out, since Keynes first launched it in the early thirties: the doctrine that full employment is the "categorical imperative" and a high rate of interest the fountain of all economic evil.

What has happened has proved the vanity of such belief. The balanced budget is not enough. Effective control of private credits is equally essential.

Australian Snapshots

A notable indication of the structure of Australian industry is that the total of 860,000 employees in factories (January, 1950) exceeds the estimate of about 550,000 persons engaged in primary production. There are, as well, about 645,000 persons in Government and Municipal employment, while the remainder of the occupied population, numbering about 1,300,000 is engaged in service industries of various kinds and in the professions. This distribution of employment is approaching a structure which is similar to that of the larger and more mature nations of the world and it is apparent that Australia has already come far from the position which it held during most of the previous century as a dependent pastoral and agricultural colony.

From 'Australia,' National Bank of Australasia Ltd.

If we do not quickly settle all the available land in Queensland to its fullest capacity, somebody else will come and do it for us. I am convinced that this is the essential truth of the matter, and that any risks we take in a policy of rapid settlement will be trifling compared with the more terrible risks of delay.

Even in Britain and New Zealand, a considerable body of informed public opinion believes that Australia is making little attempt to develop its unoccupied lands, particularly in Queensland, and that there is a case for handing them over to Asiatic settlers. If our best friends are inclined to think in this way, how much help are we likely to get in time of crisis?

From Economic News, Queensland Bureau of Industry (Director, Colin Clark), Brisbane, August, 1950

A Free Market in Sterling Now?

By Roy Harrod (Oxford)

A searching examination of the practical problems that must arise if the sterling market were set free under present inflationary conditions.

There has been much currency recently for the proposal that, either as an alternative or prelude to revaluation, sterling should be allowed to "find its natural level" in a free market. In general I am a fervent believer in the virtues of a free market; but I have an uncomfortable feeling that the agreeable connotations of that expression tend to bemuse those who use it in this particular connection.

Indeed it is hardly possible to discuss this proposal rationally unless what is intended is stated with full detail and precision, having regard to the tremendous complexities that, for good or ill, have come to beset the status of sterling with its world-wide significance and ramifications. It is all very well to talk of the Canadian experiment. The sterling question is vastly more intricate. We had indeed our own experiment in the years following 1931, but then the position of sterling was much simpler and more commanding.

I am not at present concerned with the choice between alternative ideals of currency that may be open to us in the long run, when many pressing problems have been solved, but only with what is immediate and practical. In recommending revaluation I have thought of it as a quick expedient, readily available to check inflation and to facilitate our production and defence effort in the next two years.

Capital Movement

It is needful to remind ourselves of the limitations to which the experiment of a free market would be subject. (1) First I presume that no one would recommend that the experiment should include freedom to move capital out of the sterling area, at the sole discretion of its owner. It may be that the loss of this freedom has more far-reaching disadvantages than were contemplated during the war when there was a consensus of opinion that it could not be restored when the war was over.

It may be that in the long run we should seek its restoration. Some rather fundamental changes will, however, be needed, before we should be in a position to allow all British individuals and companies to move as much of their capital as they pleased into dollar securities.

This implies that what is called "exchange control" must be continued in the near future. This may not be inconsistent with allowing demand and supply to govern the value of sterling in a market in which it is free to move up and down, but it must surely imply some restriction on the entry into such a market and some limitation on its scope.

(2) Secondly, there is the question of the quantitative restriction of imports. I have consistently advocated a relaxation of these restrictions, believing that this would make a notable contribution to relieving internal inflationary pressure and to reducing our export delivery delays, and in particular that last year it would have been better for Britain to buy dollar goods than gold. At present a relaxation of restrictions in the outer

From Financial Times, London, May 9, 1951

sterling area would do great good by reducing claims on British manufacturing capacity.

But is it seriously proposed that by one heroic stroke we should both remove all import restrictions (other than tariffs) and un-peg sterling?

I believe that such a move would not only be audacious but also unwise. But with import restrictions still on, in what sense would a free market enable sterling to find its "true" equilibrium level of value?

(3) Thirdly, it must be asked whether it is proposed to allow all the sterling balances outside the sterling area to flood into this market. Those who have currently or recently acquired sterling must clearly be allowed to offer it; otherwise the so-called free market would be a farce. If some of the balances are to be restricted, then a new division of accounts would be necessary in many cases. If all the balances were to be allowed to come in, then the Exchange Equalisation Account would have to take vigorous offsetting measures.

Market Value

(4) This raises a fourth point. In any event whatever, it must be assumed that Exchange Equalisation Account would operate in the free market in a big way. During the 1932-39 experiment it operated to offset random and seasonal oscillations and the movement of hot money; it could certainly not do less on this occasion. Recent experience has shown that in the present-day world hot money is willing and able to move on a considerable scale through the fine meshes of legal restrictions; the "free" market implies removing at least some of the restrictions.

The Exchange Equalisation Account would have its hands far fuller than in the 'thirties. Can we be sure that in these circumstances the rate obtaining in the free market would indeed represent the worth assigned by the world to sterling? Or would it simply represent what the Exchange Equalisation Account thought it ought to be worth?

Furthermore, in view of the need for continuing exchange control, as explained above, can we be sure the whole demand and supply of sterling could be allowed to impinge on the market? If only part impinged, the rate that established itself might differ widely from the true equilibrium rate. We know how worthless existing free markets, with their narrow clientele, are for giving any indication of the true worth of sterling.

If a free market which was something less than the total market, was exalted into the position of fixing the rate at which outside dealings would also be operated, we might have a radically wrong and injurious rate foisted upon us, which would have ramifying effects throughout our economy.

Rates and Inflation

There is a more deep-lying reason for doubting the wisdom of the plan. Even if all the aforesaid limitations could be thought away and the free market be given fully comprehensive scope, with all, or almost all, foreign exchange transactions passing through it, it would still fail to register the equilibrium value of sterling *in existing circumstances*.

The fact of the matter is that theory and experience alike indicate that a free exchange market does not register the true current equilibrium value of the currency, when that currency is undergoing either open or suppressed inflation. And that, we have to be frank about it, is the position of Britain at present. The internal national account is not bal-

anced; we hope that fresh efforts will be made to balance it, but we cannot count our chickens yet.

Prices and Production

At any time the true equilibrium rate of exchange (at which we ought to aim) is governed by the relation of the level of prices abroad to the level of domestic wages (and other purely internal charges) and the productivity of our labour, these two determining the prices at which home-produced goods can be offered for sale. The exchange rate should put home costs into such a relation to world prices that we could supply abroad at competitive prices goods and services of total value equal to the value of those we need to import (subject to a margin for allowed capital movements). On this basis it seems that the pound should be worth more than $2.80.

If there is open inflation, the free foreign exchange market tends to anticipate the future and thus to write the value of a currency below its present equilibrium level. The Continental countries after the first war gave abundant examples of this.

If the inflation is suppressed (British inflation is partly one, partly the other), the free market would give a wrong answer for a somewhat different reason.

Delivery Delays

Suppressed inflation entails delivery delays. The exchange market is only influenced by what British producers actually deliver abroad, not by what they could deliver at existing British costs if only they were able to meet all orders promptly. It is the former quantity which governs what the free rate will actually be, but it is the latter which governs what it ought to be from the equilibrium point of view.

The same argument applies to imports (though import restrictions are at least a partial counterweight). A British firm may buy an American machine tool, not because no British firm could make it at a competitive cost, but because no British firms can offer delivery owing to being already full up with work. It is anyone's guess whether British imports would be more or less than they are if the import restrictions were removed, but at the same time all British firms were able to meet all requests coming to them promptly at prices covering their cost.

Inflation Effect

Thus when there is internal inflation, whether open or suppressed, a free exchange market will tend to undervalue a currency. But this undervaluation will tend to increase the internal inflation.

In the British case the low quotation for sterling has turned the terms of trade strongly against her and thus exerts a basic inflationary force by making the total demands on British industry more than it can meet. Further, undervaluation makes import prices unduly high in relation to domestic wages and salaries, and by raising the cost of living tends to promote a spiral of inflation, through wage demands, etc.

Thus there is every reason to suppose that a comprehensive market for a freely floating sterling, if only it could be achieved, would tend to undervalue sterling—whether more or less than at $2.80 I cannot guess. For a country subject to inflationary pressure nothing can be more dangerous than to have an external undervaluation of its currency.

Pattern of Interest Rates

Over Twenty Years of Cheap Money Policy

THE CHANCELLOR'S references to the need for a high level of both public and private saving, and his remarks in the budget speech accepting if not welcoming the recent upward trend of interest rates, give perhaps more than historical significance to the changes recorded in the broad pattern of interest rates as it has evolved over the past twenty years—that is ever since the "cheap money" policy came into force. The table at the end of this article sets out the yields at selected dates on a wide range of securities and other forms of investment, in all of which the Government is concerned directly or indirectly. The choice of the "irredeemable" 2½ per cent Consols to represent the trend of the long-term rate of interest is obvious, while at the other end of the schedule of Government obligations the yield on Treasury bills has a powerful effect on all rates for short-term borrowing. Within these extremes are some interest rates which have moved little throughout the whole period, and others that have swung widely. As to dates, June 1931 was chosen as a starting point to indicate the levels prevailing before the great War Loan conversion of 1932. The rates for December 1932 are those at which the market appeared to settle down soon after the conversion had been successfully carried through. July 1938 may be regarded as providing a "normal" pattern before the gathering war clouds began to influence security prices, and June 1945 was chosen to represent the position prevailing at the end of the war in Europe. November 1946 marks the low point of rates, arrived at by the special measures adopted in the immediate post-war period to bring down the long-term rate to 2½ per cent, while the last column refers to the position shortly after the latest budget. Figures covering the whole period are not available for some of the securities, notably Treasury deposit receipts, Defence Bonds and 3 per cent. Savings Bonds 1960-70, which came into use during the war. The 2½ per cent Treasury Stock was created as the climax of the post-war cheap money campaign, and 5 per cent Conversion Loan 1944-64, issued in January, 1939, was redeemed at the earliest optional date.

Significant Features

The table displays several significant features of interest rate policy over the entire period. First, the yields on Treasury bills and Treasury deposit receipts have been held well below the level of short-term rates prevailing before 1932—even during the war years the rise allowed was no more than one-half per cent—while flexibility of short-term rates has been severely restricted and there is no longer such close response as in former times between short- and long-term rates. This policy of fixity of short-term rates has become firmly established since the outbreak of war.

The second feature of the table is that the interest payable on savings bank deposits has been maintained at 2½ per cent throughout the whole period—as indeed ever since the start of the Post Office Savings Bank in 1861—whereas the yield on National Savings Certificates (which is tax-free) held for their full term and the interest rate on Defence Bonds—the other main outlets for what may

From Midland Bank Review, London, May, 1951

be termed "genuine small savings"—have been varied from time to time more or less in accord with the trend, determined on the market, of the yield on medium-dated Government securities. Two other sets of rates which have been altered from time to time have been the charges for loans by the Public Works Loan Board and those for loans by the Agricultural Mortgage Corporation.

For overseas readers it should perhaps be explained that the Public Works Loan Board is a long-standing official body making advances to local authorities out of funds formerly obtained by public issues of Treasury-guaranteed Local Loans Stock, but since 1945 provided by direct advances from the Exchequer. Since the war the bulk of the advances by the Board has consisted of 60-year loans for housing purposes, so that interest rates on the loans have played a large part in determining the level of rents charged by the local authorities to the tenants of their houses. The Agricultural Mortgage Corporation, whose capital is owned by the large commercial banks and the Bank of England, but whose resources have been raised largely by market issues of mortgage debenture stock, exists for the purpose of making long-term loans to farmers, chiefly for the purchase of farms.

Finally, the table brings out clearly the downward trend in long-term rates which persisted from 1932 to 1946 and the upward movement which has since occurred—a movement which was particularly steep over the past twelve months.

INTEREST RATE OR REDEMPTION YIELD PER CENT.

	June 1931	*Dec. 1932*	*July 1938*	*June 1945*	*Nov. 1946*	*Apr. 16 1951*
"Irredeemable" Government securities:						
2½% Consoles	4.17	3.38	3.30	3.00	2.53	3.76
2½% Treasury Stock	—	—	—	—	2.50	3.76
Public Works Loan Board 60-year loans	4.75	4.00	3.625	3.25	2.50	3.00
Agricultural Mortgage Corporation ...	5.00	5.00	4.25	3.50	3.50	4.00
"Medium-term" Government securities:						
5% Conversion Loan 1944-64 ...	4.36	3.49	2.49	—	—	—
4% Funding Loan 1960-90	—	—	3.15	2.85	2.25	3.54
3% Savings Bonds 1960-70	—	—	—	3.00	2.25	3.42
Savings Bank deposits	2.50	2.50	2.50	2.50	2.50	2.50
National Savings Certificates*	4.14	3.35	2.92	3.17	2.66†	3.05
Defence Bonds	—	—	—	3.09	2.59	3.00
Treasury Deposit Receipts	—	—	—	1.125	0.625	0.625
Treasury bills	2.10	1.04	0.52	1.00	0.51	0.51

* Cumulative rate if held for full term, usually ten years.

† Rate on new issue of certificates introduced on April 1, 1947, following the general reduction in rates in the autumn of 1946.

THE CASE FOR INFLATION—(*Continued from page* 251)

voluntary saving on a large scale. Give people confidence that their real incomes will not be cut by inflation: give them also a sound instrument of saving; then they will save. This saving can be further encouraged, if necessary, by making a part of their income taxes and escalated pay repayable in the proposed inflation-proof defence bonds.

We shall have escalation by powerful business, farm and labour groups whether we provide it or not. The community should try to get a quid pro quo. This could be a set of arrangements that would make escalation innocuous and even benign.

The Case for Inflation

By JAMES S. EARLEY (Professor, Wisconsin)

"ESCALATION" OF WAGES with rising living costs has been widely condemned as destructive of economic stabilization. This letter is to point up its anti-inflationary virtues and to suggest its general adoption in the stabilization programme.

This sounds absurd only because we have not thought through our problem. If we faced an intense war effort of short duration, with all the changed attitudes that implies, it would be possible to "freeze" wages and salaries, as well as prices, with limited exceptions.

But we face instead, in all probability, a milder but prolonged defence effort in which the psychological and economic bases for such Draconian measures are lacking. We need a different kind of programme, aimed at controlling the underlying forces of inflation rather than its repercussions, and designed above all to elicit support for the key measures — increased taxes and steady saving.

We must inquire then whether "escalation" can be helpful in bringing about the willingness to make needed additions to taxation and saving.

I believe that it can. In the first place, it can help create that feeling of equity essential to a sound comprehensive anti-inflationary policy. If workers are assured of this protection, they could, I think, be persuaded to forego less justified demands for higher wages. The greater feeling of economic security should reduce the panic demands of consumers and make it clear that heavier taxes can be borne. Most important of all, it will help get the leaders of industry and Government behind a sound programme, since they will see the dangers—in higher wages, higher governmental costs for services, and higher interest charges on the national debt—if the cost of living continues to rise.

New Wage Formula

For these reasons, it would be wise, I believe, to generalize the principle of permitting adjustments of wages and salaries to change in the cost-of-living index. The new wage formula should be made part of a comprehensive programme, including heavier taxes (possibly with a forced saving or "deferred pay" feature), more adequate control of nonessential investment, some subsidy funds to hold down key prices, and reform of the farm parity provisions of the stabilization legislation to make them somewhat less inflationary in tendency.

There is one apparently forgotten man in this programme—the man with fixed money contracts. I would think it wise to give him, too, some explicit protection beyond that given him by an anti-inflation programme that has real hope of working. I would propose putting escalation clauses in social security and other federal pensions, and encouraging their adoption in other pension systems. I would let interest rates rise somewhat. Finally for that virtuous character, the new saver, I would provide a saving bond in limited amounts, with a cost-of-living protective clause if he holds the bond to such time as it becomes economically prudent to redeem it.

Thus the escalation principle can also be made a key to getting

(Continued on page 250)

From Letter, New York Times, April 8, 1951

Can Britain Reconcile Obligations to Europe and the Commonwealth?

By Paul Rykens

Must Britain choose between the Commonwealth and Western Europe?

I am convinced that she need not. In fact, there is no reason why a system of closer co-operation should not be developed associating the United Kingdom with Western Europe on the one hand and with the Commonwealth on the other. There is already one example of such an arrangement before us. The U.K. is the centre of the Sterling Area currency system, but this did not prevent the U.K. from joining the European Payments Union.

If further European economic co-operation is not likely to take the form of a complete customs union, it might well be achieved by a system of mutual tariff preferences. Such a system, by gradual extension, could ultimately lead to the establishment of a free trade area in the sense of the General Trade Agreement on Tariffs and Trade, which would still enable the individual countries to follow their own tariff policies in regard to the outside world.

If the United Kingdom were to join such a European system, it would come to belong to two preferential areas, those of the Commonwealth and of Western Europe. It would thus be able to reap the advantages of both systems. The Dominions, on the other hand, would find themselves faced with increased competition in the British market.

The dangers of such competition should not be exaggerated. It would probably be confined to a very few products, such as butter, fruit and wine, and there would be compensations in that an increasingly prosperous Western Europe would provide a growing market for Commonwealth products. Admittedly these compensations would only become really effective in the long run. For the immediate future a system whereby the U.K. alone would join a West European preferential area would have little real attraction for the Dominions.

Linking Dominions and Europe

A very different situation would arise if, together with the United Kingdom, the Dominions themselves were to link up with a West European preferential area. They would not necessarily enter the European markets on the same terms as the European countries—neither need the latter enter the Commonwealth markets on the same terms as the members of the Commonwealth. But it should be possible to establish a system of modified preferences between the Dominions and the Continent, thus creating a third preferential area.

In such a structure the advantages for the Dominions would be obvious. Their produce would have access to the continental markets on a preferential basis and they would thereby reap the benefits of increasing prosperity in Europe from the start. This advantage is likely to offset any unfavourable consequences increased competition in the British market might have for them.

From "European Unity and the British Commonwealth," Progress, Lever Brothers & Unilever Ltd., London, Spring, 1951

In the same way any adverse results which Dominion competition in continental markets might have for European producers would be largely compensated by wider outlets in all parts of the British Commonwealth.

If in the initial stage the new competition would upset existing market conditions too abruptly there is always the possibility of safeguarding the position of individual products, by means of quotas or otherwise.

In general this structure of interlocking preferential areas would rest on the solid basis of the essentially complementary functions of a predominantly industrial Western Europe and the predominantly agricultural dominions.

Attitude of U.S.A.

It might be felt that the suggestion here made would not be favourably received in the U.S.A. I am, however, convinced that they will eventually support the idea if it is realized that it represents a continuation of their policy of restoring and reinvigorating the economy of Western Europe. It should also be emphasized that the tendency of the system here put forward is not protectionist but the reverse, as it would proceed by a lowering of tariffs within the area covered by the arrangement and not by a raising of tariffs with regard to the rest of the world. Thus it would fit in well with the Havana Charter and the General Agreement on Tariffs and Trade.

Assuming that this scheme would be attractive both to the Dominions and to continental Europe, and acceptable to the U.S.A., what would the position be from the point of view of the United Kingdom?

There is certainly a risk that the U.K. would suffer if her preferential position on the Dominion markets were to a certain extent shared by other countries of Western Europe. But this risk is limited by the fact that British goods would continue to enjoy a degree of preference greater than that accorded to continental products. Besides the Dominions cannot absorb the whole of Britain's export. The United Kingdom, therefore, has a vital interest in the development of European markets. The new ties between Europe and the Dominions would greatly stimulate the continental economy, and thus create valuable new opportunities for British exports. Industrial expansion in Europe would obviously result in a greater demand for such products as machine tools, steel, chemicals, electrical equipment, etc., of which Britain has always been an important supplier.

Moreover, the fact that Britain would form the link between the preferential areas would favourably affect her visible exports. Her banking, shipping and insurance interests would have opportunities of expansion which might well be exceptional. Invisible exports are as a rule, more easily influenced than physical exports; the stimulus given to them might so improve Britain's balance of payments that the benefit would be felt by the whole nation.

Britain's Efficiency

A marked degree of harm would only occur if there were reasons for British industry to be afraid of competition, that is, if it were so much less efficient than its European competitors that the remaining degree of preferential treatment in the Commonwealth would not afford sufficient protection.

Are there grounds for such a fear? I do not believe it, especially if one takes into account that economic collaboration in Western Europe must result in a levelling up of wages. In an increasingly prosperous Europe

standards of living and wages are bound to rise. Nor is the fear of a wage competition always completely justified. Low wages do not necessarily lead to low prices. More often they are a symptom of low productivity, in the same way as the basic justification of high wages lies in a high measure of productivity. The real question, therefore, would be whether British industry, in all cases where it pays relatively high wages, is justified in doing so having regard to its standards of efficiency.

There would only be reason for anxiety if—through shortcomings in management, inadequate performance of the workers, restrictive practices on whichever side, or any other cause humanly controllable — the costs of production were higher than those of their competitors. If this were the case, then the long term prospect of British industry would be unfavourable anyway, even if, for the time being, the unpleasant consequences could be staved off by cushioning against competition. If there are no grounds for doubting the achievements of British industry, and I repeat that I am convinced there are none, then Britain can wholeheartedly assume the leadership of a West European preferential system and with an easy mind accept the Dominions' active co-operation therein.

I am firmly convinced that in the long run Britain's interest and well-being lies in this direction; but for the present the question is one not merely of interest but of moral duty such as falls to each nation in its turn.

Sterling Area Gold and Dollar Reserves

DURING THE FIRST quarter of 1951, the sterling area's net gold and dollar surplus amounted to $360 million compared with a surplus of $398 million in the fourth quarter of 1950, and $187 million in the third quarter of 1950. Receipts under the European Recovery Programme in respect of allotments made before the end of 1950 amounted to $98 million compared with $145 million in the fourth quarter of 1950 and $147 million in the third quarter. The central gold and dollar reserves of the sterling area rose, therefore, during the first quarter of 1951 by $458 million and amounted to $3,758 million on 31st March, compared with $3,300 million on 31st December and $2,756 million on 30th September.

As a result of the continued increase in the reserves, an issue of sterling to the Exchange Equalisation Account will shortly be necessary, and a further issue of £300 million will accordingly be made to the account during the current month.

As far as can be seen at present, the substantial gold and dollar surplus in the first quarter of 1951 is mainly due to high dollar earnings by countries in the rest of the sterling area which have no doubt also been reflected in an increase in our sterling liabilities to those countries. The United Kingdom itself appears to have remained in deficit with the dollar area, while at the same time our total balance of overseas payments has certainly been much less favourable in the last few months, because of the sharp increase in import prices.

Chancellor of Exchequer, House of Commons, April 5, 1951

Counterpart Funds Stimulating Europe's Agriculture

Economic Co-operation Administration, Washington, April 18, 1951

THE EXPENDITURE during 1950 of approximately $386 million in local currency counterpart funds for agricultural development by Western European countries brings to $550 million the total devoted to this phase of recovery since the start of the European Recovery Programme.

As part of its effort to help stimulate agricultural productivity, E.C.A. brought nearly 750 European agriculturalists to the United States last year for study, and sent about 50 American specialists to various European countries under its Technical Assistance Programme.

The increasing emphasis on support to agriculture has already contributed in many ways to Europe's remarkable agricultural recovery.

The counterpart funds—sums paid by European importers to their governments for U.S. products furnished under the Marshall Plan—have been used to open up crop land, provide extension services to advise farmers, and to pay for importation of new varieties of seeds, breeding stock and farm equipment. In some countries, the funds have been made available as loans to farmers.

In Italy, land reclamation projects totalling about 39,000 million lire had been approved by the end of 1950. Italy also committed about 10,000 million lire to pay the state subsidy on some 48,000 farm improvement projects, including cattle shelters, sheep pens, irrigation ditches, and pasture improvement.

In the Netherlands, counterpart funds helped in reclaiming land from part of the Zuider Zee. In Turkey, work is under way to develop some of the 5,000,000 to 10,000,000 acres not now used for crops.

In the Federal Republic of Germany, 15 million Deutsche marks of counterpart funds, released for loans at two to five per cent. interest, are facilitating farm building reconstruction and modernisation. Counterpart funds are also being used as grants-in-aid to set up a large number of pastures and meadow demonstrations where German farmers may observe reseeding and fertilisation to increase grass and hay production.

Demonstrations of agricultural techniques are also presented to visiting teams of European specialists in the United States. The programme is carried on through the co-operation of the U.S. Department of Agriculture, American universities, farm organisations, agricultural industries, and thousands of individual farmers.

As a result, higher-yielding wheat, forage crops, cotton and other produce have been introduced in Marshall Plan countries. French farmers, for example, are planting this year about 1,300 tons of hybrid corn that will yield 25 or 30 per cent. more feed per acre than former varieties.

Food Subsidies and Living Cost Index

If subsidies on meat, eggs, sugar and tea were abolished, the Interim Index of Retail Prices would be raised by 2.56 points, on the basis of present procurement prices.

Chancellor of Exchequer, House of Commons, April 3, 1951

Structure of U.K. Import Restrictions

By Deryck Abel

THE FREE TRADE Revolution occupied 24 years, from the first Peel Budget in 1842 to the removal by Mr. Gladstone of the last protective duty (that on timber) in 1866. Britain remained a completely Free Trade country from 1866 to 1915.

The Protectionist counter-revolution was a process of attrition. It began with the McKenna Duties in 1915. It was completed by the Import Duties Act and the Ottawa Agreements Act in 1932, Mr. Walter Elliot's Agricultural Marketing Acts in 1934, quota legislation, continuous recourse to State bulk-purchase and the nationalisation of the Bank of England in 1945. Thus the fiscal counter-revolution lasted 28 years.

First came the New Import Duties, usually known as the McKenna Duties, after the Chancellor of the Exchequer who introduced them. Originally a war-time measure ostensibly devised to conserve exchange and shipping space, they were imposed as from September 29, 1915, repealed by Mr. Snowden in the Finance Act of 1924, but restored by Mr. Churchill in the Finance Act of 1925. They subjected motor cars, motor-cycles and their parts, musical instruments and cinematograph films to an *ad valorem* duty of $33\frac{1}{3}$ per cent. Commercial motor cars were added in 1926, rubber tyres in 1927.

Next, in 1921, Key Industry Duties, amounting to $33\frac{1}{3}$ per cent, affecting 6,358 articles, mainly chemicals and scientific materials, were imposed under the Lloyd George Tory-dominated Coalition in the Safeguarding of Industries Act, renewed and augmented in 1926 for ten more years.

Thirdly, we had, in 1925-8, a series of Safeguarding Duties. They were introduced after an elaborate procedure culminating in recommendation by Safeguarding Committees, on lace and embroidery, cutlery, fabric and leather gloves, gas mantles, packing and wrapping paper, pottery, enamelled hollow ware and buttons. It was the normal technique to tuck such duties into the Finance Act, but cutlery, gloves and gas mantles were accorded their own Safeguarding of Industries (Custom Duty) Act.

Special duties on silk and artificial silk, permanent until repealed, were enacted in 1925. Duties on hops came into operation in 1925 for four years. They were continued in 1929 for four more years. Two further specific measures of Protectionist legislation were the Merchandise Marks (Import Goods) Act of 1926 and the Cinematograph Films Act of 1927.

Reactions to Crisis

After the world economic disasters and the fall of the second Labour Ministry, the Abnormal Importations Act was fathered by Mr. Runciman upon the House of Commons on November 16, 1931, empowering the Board of Trade to issue orders imposing upon a long list of articles an *ad valorem* duty not exceeding 100 per cent.

In December, 1931 the Horticultural Produce Act empowered the Ministry of Agriculture to issue orders imposing for a period up to one year, duties not to exceed 100

From Liberal News, London, April 20, 1951

per cent. *ad valorem* or according to weight, on various classes of fresh fruit, fresh vegetables and flowers.

Next, the Import Duties Act of February 29, 1932, brought in a general 10 per cent. customs duty on all imports except goods dutiable under earlier measures or goods specified on a short free list of some forty items, of which eighteen were added during the committee and report stages of the Bill. This Act was the main instrument of Britain's reversion to protection. It set up an Import Duties Advisory Committee of three members, under Sir George May's chairmanship to recommend to the Treasury further 33⅓ per cent. surtaxes on luxury goods or on goods "of a kind which are being produced or likely to be produced in the United Kingdom in quantities which are substantial in relation to United Kingdom consumption." Power was given to the Board of Trade to levy duty, with Treasury consent, on the goods of any country which discriminated against British exports.

Ottawa Agreements

Finally, the Ottawa Agreements Act became law in November, 1932, after eleven Ministers had withdrawn in protest against it, from the National Government on September 28, 1932. It embodied the results of Great Britain's seven inter-imperial trade agreements signed at the conclusion of the Ottawa Conference of July 21—August 20, 1932. It ringed the Commonwealth and Empire with discriminatory preferences against the outside world.

Britain's reversion to a tariff system was, therefore, completed by the end of 1932. Unlike the United States' tariff since the passing of Mr. Cordell Hull's Reciprocal Trade Agreements Act in 1934 (five times renewed), the United Kingdom tariff has undergone relatively little change during the last eighteen years.

France modified and simplified her tariff after the establishment of the International Trade Organisation and the Geneva-Havana-Annecy negotiations.

Yet, under the Geneva Tariff and Trade agreement, Great Britain has reduced her tariff on no more than 260 articles. In many instances, the so-called tariff " reduction " has been rendered farcical by substituting an *ad valorem* duty for a specific duty and then by qualifying it with the formula, " whichever is the greater."

In practice, in such cases, at this time when the landed cost of goods is unusually high, and the *ad valorem* duty correspondingly high the new tariff must clearly be higher than the specific duty, either as it was or as it now stands.

Dresses and skirts, stockings and socks, alarm clocks and honey are representative examples. Duties have been reduced by one-third on some 30 of the 6,000 classes of chemicals and by one-quarter on a considerable range in the machinery and metallurgical classes. We now have Free Trade in gas mantle ash and silica refractory bricks.

Quantitative restrictions under State bulk trading, exchange, control and currency manipulation are even more diabolical than tariffs.

The Free Trade campaign means free exchange and convertibility, an all-out offensive against quotas, the abolition of export licensing, denationalisation of the Bank of England. It means the adaptation of " Benelux " into Free Trade for Western Union and, later, for Atlantic Union.

Reshaping International Monetary Fund As Instrument of Full Employment

By T. WILSON (University College, Oxford)

Mr. Wilson discusses, in his article on 'Some International Aspects of Employment Policy', the United Nations report on 'National and International Measures for Full Employment.'

He holds that, although the scheme propounded is in principle attractive, the detailed provisions will not, and perhaps should not, be accepted mainly because the major trading nations, in particular the United States of America, will not be prepared to promise in advance to act according to a rigid plan of the kind suggested.

He points out that the International Monetary Fund could be used for the purpose to a limited extent. But if the Fund is to accept responsibility for 'anti-cyclical' policies, it should be reorganised along the lines set forth in the following extract.

IF THE INTERNATIONAL Monetary Fund is to accept some responsibility for anti-cyclical policies, this must not be allowed to prejudice the performance of its more normal functions. The United Nations Report mentions this point, but the proposals are not related explicitly to the Articles of Agreement, and it may be assumed that the further task of detailed reconciliation had to be postponed. (The document, which was urgently demanded, was written in a mere seven weeks.) The proposals made above in the preceding section simply require for their implementation the use of some special clauses in the constitution, but it is doubtful whether matters should be left permanently on this basis. The clumsy manœuvres necessary to regulate interest charges may be cited as an example. Ordinary rates would be charged on funds borrowed before the crisis. The funds supplied during the crisis for purposes of stabilization should, however, be obtained at lower rates which would imply a revision of Article V, section 8 (*c*), by a three-quarters majority. Subsequently the normal rates should be charged on loans made after the crisis, and for this purpose Article V would have to be altered again!

It would surely be more desirable to separate the different functions of the Fund. A new department should be set up, analogous to Professor Viner's Stabilization Fund, which would handle any funds specially obtained for cyclical purposes. No member would be under an obligation to lend this department any specified amount, but all would be committed by the general pledge to co-operate with it and to consider its requests. The terms on which it could borrow would be settled when the occasion arose, and these, in turn, would determine the conditions on which it could lend. There would be no question, however, of attempting to stabilize payments on some predetermined basis every year in the manner apparently envisaged by the authors of the United Nations Report. Action would be taken only when the position appeared to be really critical; but, in such circumstances, the new department would try to obtain funds and to make disbursements as soon as possible, instead of allowing a full year or more to elapse before compensatory payments began. Nor should this new section be obliged to wait until a currency had become scarce in the other part of the Fund before it could begin to operate. Its object

From Oxford Economic Papers, Geoffrey Cumberledge, Oxford University Press, February, 1951

would rather be to prevent currencies from becoming scarce in this way and thus to permit the other section to operate as far as possible on a normal basis without invoking escape clauses such as those contained in Article VII. Naturally each department would be affected by the operation of the other and close co-operation would be required.

What I have proposed is, first, a new international pledge to supplement the existing pledge in the Charter of the United Nations, and, second, a reorganization of the International Monetary Fund. These proposals do not involve precise commitments and are far more modest than those made in the United Nations Report. Yet it is most improbable that any fresh measures will be adopted in the near future, and the experience of another crisis will probably be needed as a stimulus before the machinery is reconstructed on a permanent basis. This may not, however, be such a gloomy conclusion. If a slump occurred, the will to act would probably not be lacking, and, apart from all kinds of entirely *ad hoc* expedients, resort could be had to the special clauses in the Articles of Agreement of the Fund. These clauses could be made to serve for the time being, however desirable it might be to carry out some institutional reform at a later date.

Fixed House Rents and Rising Maintenance Costs

By Ernest Marples, M.P.

The attention focussed since 1945 on the building of new houses has thrown into the shade the no less urgent problem of the repair and proper use of the existing stock of houses. In England and Wales these number 11,500,000, of which seven million or eight million are let to tenants. Almost six million of the 11,500,000 are over 50 years old, and of these six million, 2,250,000 are over 100 years old.

It is not surprising if many of the houses which are rented are in imminent danger of falling into utter decay; nor is the maximum use always made of the accommodation they provide. For this state of things, rent restriction and inflation are jointly and mainly answerable. The money received as rent (which necessarily includes an element for repair) is frozen at various levels—mainly at pre-1939 levels. But repairs in 1951 probably cost three times as much as in 1939. About four million tenants still pay the same amount for rent and repairs as they did in 1920. Some local authorities solve their problem of finding money for repairs by increasing rents; others by charging the rates. How about privately owned houses urgently needing repairs? Who is to pay in their case? The degree of urgency varies according to the duration and type of the control that applies. But let there be no mistake about it; in not a few cases, unless urgent repairs are carried out at once, it will be too late. Dry rot and disintregrating walls will not wait for a committee decision.

Should the State pay and continue to let rent be frozen? Should the landlord be forced to carry out all necessary repairs at 1951 prices while his rental income is limited to 1939 rents? Or should the tenant be made to pay as a condition of continuing to pay 1939 rents? Or should there be a combination of all three methods?

Letter, The Times, London, May 1, 1951

Employing Older People
Some of the Formidable Problems

By Barbara E. Lewis

The over sixties are by no means a homogeneous group. Adjustments to old age will depend not only upon individual physique and temperament but upon the demands which a particular occupation have made during a working lifetime. There are industries in which, under present conditions, men are physically impaired at 55 years or earlier, and where only an exceptional few would find employment beyond normal retirement age a desirable or practical proposition.

Even in lighter industries, which seem to the casual observer suitable for the employment of old persons, there are some difficulties. There are light engineering firms which are short of labour, but older men are not accustomed to the quick, deft, repetitive work, normally done by girls and married women. Apart from the difficulties of learning a new skill and acquiring and maintaining the necessary speed, there are psychological and financial barriers to employing older men on what they themselves term "wenches' work." Older men can be found willing to take on jobs formerly done by youths, but they are less willing to accept work usually done by female labour.

It is necessary to break down the numbers of those over retirement age not only by sex and age but also by occupation and pension rights before we can decide whether they ought to be encouraged to remain in employment, and what sort of inducements are likely to influence them to do so.

The main appeal will be to older men for it seems unlikely that older women who have left the labour market early in life and are occupied in running their own homes will re-enter industry. This must be remembered when it is argued that increased employment will relieve the burden of pension payments. Women outnumber men heavily in the older age-groups of the population. Of the 6,771,000 persons of pensionable age (at June, 1950) 4,506,000 are women, and nearly two millions of these women are over seventy years of age. Continual employment will not greatly reduce the cost of retirement pensions for older women, though the employment of their husbands could improve their financial position and make recourse to the Assistance Board less necessary. But it is possible that some women in their sixties, and a substantial number of men between sixty-five and seventy years, could be kept in employment after retirement age if the prospect were made attractive to them.

Numbers Involved

We have no official figures available for the numbers of people over pensionable age who are still working. The estimate made at July, 1948, which put women over sixty years in insurable employment at 200,000 and men over sixty-eight years at 500,000, has subsequently been revised to a total of 583,000 (Ministry of National Insurance Report, 1944-9). These figures do not include the self-employed, among whom there are a fair proportion of older persons, especially as this is a group who are able to choose their own retirement age. But this esti-

From Manchester Guardian, May 1, 1951

mate is a good deal less impressive than the official statement that two-thirds of the men and rather less than half the women reaching retirement age do not draw their pensions (1949). We do not know how long such people go on working, but 583,000 is only 26 per cent. of men between sixty-five and seventy years of age and women between sixty and sixty-five, and less than a tenth of all these over retirement age.

Why they Retire

At present those who accept retirement do so for three major reasons—because of ill health and general fatigue, because there is no suitable work available for them, or because their conditions of employment include compulsory retirement at a fixed age. Compulsory retirement in the present conditions of full employment is not a serious barrier for the manual worker, though it remains very important for those in the professions and public services and in the clerical and managerial grades in industry.

Many employers are quite ready to retain older workers on the factory floor as long as they are willing and able to continue their job. A number of Midland firms covering a wide range of industries who were questioned on this point were unanimous in declaring that older workers were loyal, reliable, and co-operative with management, and that their records for punctuality and time lost without permission compared very favourably with that of younger workers. Accident rates are not higher among older workers, for although they may be slower to react in an accident situation, they are more careful and experienced in avoiding such dangers. It is interesting to note that in learning a new job the younger workers tend to attack it quickly, producing a good deal but also making a good many mistakes. The older worker approaches the new job more cautiously, not producing so much, but not wasting material.

In the case of manual workers who are physically able to continue and are not barred by compulsory retirement the main difficulty is to find them suitable work. There are only a limited number of light jobs in many firms and there is the Disabled Persons Quota to be filled and probably a few of the firm's ex-accident cases to be considered, as well as the older worker. The practice of crafts in which older workers excel is limited to a fairly narrow area of modern industry, and not every firm can afford to maintain as an economic proposition special workshops for selected older workers. Some firms do this, and it may be profiitable to use older workers paid on a day rate to unwind spoilt work and salvage expensive materials or to staff an internal postal and messenger service.

Changes Needed in Industry

But if industry is to make use readily of older workers, not only those over 65 years but those in their fifties who need to change their jobs, some very considerable changes will have to be made in production methods, and this presupposes a change in the traditional attitudes of the employers, the unions, and the older workers themselves. The older worker may be less efficient, though still useful, in which case, if employment is to be economic and not merely occupational therapy or philanthropy, the older worker cannot be paid more than he is worth. Difficulties arise here because of trade union insistence on the minimum adult rate for the job, and some fears have already been expressed that the old may be treated

as a source of cheap labour. Where trade union organisation is strong the older man is always likely to be the marginal worker, for when there is redundancy, whatever the preference of the employer, the older man will have to go to leave jobs for the younger family men. Those industries which can offer suitable work for older persons will have to be prepared to employ old people for the first time at 65 years, a very different proposition from retaining old employees. Thus on the employers' side it is not sufficient to remove compulsory retirement limits unless new arrangements are made to make available employment for older persons. Until this happens, it is frustrating to tell the old that they ought to remain in employment, and draft pension regulations on this assumption, when frequently older persons seeking employment have only to reveal their age to meet with polite but firm rejection.

WHAT'S HAPPENING TO WAGES IN U.S.A.

Wage earners and salaried employees in business and industry received a larger share of U.S. income in 1950 than in 1949, following a trend consistent since 1929.

In 1929 workers received $50,800 million or 59.4 per cent. of the total income. Last year their share had increased to $152,200 million, or 69.5 per cent. This compares with $140,600 million, or 68.9 per cent. in 1949.

Corporate profits, after taxes, while increasing in dollars between 1929 and 1950 ($8,400 million to $18,300 million) was down in relation to the total income—from 9.8 per cent. in 1929 to 8.4 per cent. in 1950.

U.S. Department of Commerce, Washington and New York Herald Tribune, April 27, 1951

The average income of U.S. families as a whole was $3,068 in 1949. The family average in each of the four major regions ranged from $3,435 in the West to $2,248 in the South. Part of the sharp difference may be attributed to the fact that the South contains large numbers of farm families who receive part of their income in form of farm products rather than in cash.

U.S. Census Bureau, Washington, May 1, 1951

Soil Destruction — Myth or Reality?

By Sven L. Jansson
(Royal Agricultural College of Sweden)

The situation prevailing in agriculture today presents great problems of destruction caused by the unwisdom of mankind. In damp, temperate areas—podsol and brown earth regions—water erosion has wrought great havoc, especially where the ground is hilly, once it has started as a result of unsuitable methods of cultivation or over-grazing of pastureland. In the latter case livestock break up the covering vegetation with their hooves and thus create spots where erosion can get a hold. Damage of this kind occurs when too large a stock is kept in relation to the productive capacity of the soil. It has sometimes led to a generalized and uncritical condemnation of cattle-farming as such—a condemnation which would very soon lead to a state of "out of the frying-pan into the fire" in areas where the resources are better suited to the pastoral farming that is carried on in them. Nevertheless, serious erosion damage in podsol regions is found in the northern and eastern parts of North America, in North Asia and in the Far East.

The moist and warm areas—equatorial forest regions where the soil is known as *laterite*—are even more subject to this type of erosion. For them, broadly speaking, no reliable methods of cultivation yet exist. This applies above all to the equatorial parts of Africa and South America and certain parts of India.

The richest farming land in the world—the chernozem regions in Eastern Europe, Asia and North America—has been rendered liable to erosion as a result of one-sided, oxidation-promoting cultivation and has been damaged by both wind and water erosion.

The dry areas—with soils related to chernozem, chestnut and semi-desert soils, etc.—in the west and south of North America, Central America, the greater part of South America, South Africa, the Mediterranean basin, the Near East, large parts of Central Asia and practically the whole of Australia, where the main type of farming is extensive cattle farming or extensive arable farming without the application of soil amendments, are perhaps the areas most severely ravaged by erosion—wind erosion in the plains, water erosion in the hilly parts. The protective vegetation on the pasturelands has been worn down by excessive grazing and the over-exploitation of open fields in these dry areas has, as nowhere else, reduced the organic matter content of the soil and adversely affected its physical properties.

Lessons from Europe

After this rather disheartening survey of the ravages of erosion in the important food-producing areas of the world, it remains to consider (apart from some areas of limited extent which enjoy good conditions) only one agricultural region of significance, namely North-West and Central Europe. Here agriculture has been carried on continuously without serious detriment to the stability of the soil.

The fact that our particular part of the world has come out so well in this matter is in itself very instructive. It cannot be denied that the composition of the soils is such

From Quarterly Review, Skandinaviska Banken, Stockholm, April 1951

that they offer considerable resistance to the forces of erosion, nor that these forces are of a rather mild type; rain seldom falls in the form of sudden cloud-bursts, cyclones and other violent disturbances in the atmosphere are rare. Nevertheless the climate and the character of the soil-formation are such that if extensive agriculture of the type just outlined were applied the soils would long since have been impoverished and destroyed. If the development has not travelled along that road, the credit must go to our *intensive farming*. In our efforts to maintain a high level of production we have made great use of ameliorative measures—among which liming is of fundamental importance — and the cultivation of the soil has been combined with livestock management of a high standard; this has meant a considerable cultivation of grass and leguminoses—most valuable for preserving the humus content—and an equally valuable production of farmyard manure. Further, by use of artificial fertilizers unequalled in any other part of the world (including the U.S.A.!) we have counterbalanced the loss of plant nutrients which the prevailing natural soil-formation involves and which the removal of the crops gives rise to.

Redirection of Soil Formation

All this adds up to something very interesting—nothing less than the redirection of the soil-formation. The trend towards the podsol type, which has little cultivation value, is checked and the conditions that lead to the soil types most suitable for permanent agriculture — chernozem and brown earth—are realized more of less completely. The agriculture of North-West Europe with its extensive use of soil-improving and fertilizing agents creates, in other words, an intrazonal soil within the high-precipitation podsol region, a "culture soil" with the characteristics that distinguish the soil, more favourably for cultivation, of the drier steppe climate.

This intrazonal character has one very important consequence, and that is the highest average yield in the world. In the chernozem region, where the soil is rich but the climate is dry, it is the moisture factor that limits crop production. In the moist podsol region soil fertility is the limiting factor. If, then, chernozem —in the form of "culture soil"—is thus "moved over" into the podsol region there will be a combination between good nutrient conditions and good water supply which will give a better harvest than would be possible were the natural conditions operating alone.

Thus the agriculture of North-West Europe is a powerful witness to the fact that the preservation of soil fertility is bound up with man's capabiliy to guide the natural processes into new and useful channels. It also teaches us that nothing can be accomplished without the application of labour and other factors of production.

Thus we can also dismiss one thesis that is often strongly maintained in the discussions about soil destruction, the idea that it is the most intensively cultivated soil that goes under first, that the use of artificial fertilizers is a powerful factor in the destructive process and that the consumption of moisture by the growing crops imperils the moisture balance of the soil. In every particular such statements are an instance of putting the cart before the horse

The way of salvation for the areas ravaged or threatened by soil destruction lies in the principle of counteracting and disarming the destructive tendencies inherent in

natural development. This again is shown by the example of N.W. Europe, though we should not allow ourselves to be led to the conclusion that the principles applied there are the only ones permissible; in other climatic regions the application of the guiding principle may call for entirely different methods of agriculture.

That the principle can be fully applied within a forseeable future and without undue difficulty is demonstrated encouragingly enough by another example, the U.S.A. Since at the beginning of the thirties, the Americans became aware of the seriousness and extent of the erosion problem, a national effort has been made, the threatening catastrophe has been warded off and the situation brought under control, although traces of the damage already inflicted will remain for a very long time.

Methods of Conservation

It is not possible to say much here regarding the technical execution of an effective system of soil conservation. It may be mentioned, however, that it must be organized on two main lines. One consists in preventing soil from becoming inclined towards erosion, and this is done simply by taking every step that will both preserve and increase the productive power of the soil. The other is to turn the edge of the eroding forces—wind and water. On a large scale this is done by what is called landscaping; by creating a suitable windbreaking balance between open land and belts of trees or bushes and by protecting the watercourses. On the individual farms special shelter belts can be arranged and a technique of cultivation devised that will prevent the wind from "getting hold of" the unprotected surface of the soil and will allow the rain to soak into and be retained in the earth, thus diminishing the harmful run off.

But apart from the purely technical aspects, the problem of soil conservation has human and social implications of no less importance. Agricultural research needs to be extended; we know a great deal about natural soils and cultivated soils, but we must know much more if we are to be on the safe side as regards the future of agriculture. Furthermore, there is a need for information activities and, in connection with this, a large and well-trained corps of instructors and advisers to be at the service of the individual farmer. The first and last condition for the organization of efficient soil conservation is the existence of an informed and alert rural population of high standard, whose interest it is to preserve the productive capacities of the land. In this respect many parts of the world fall very far short of the ideal. If they are to be helped a great deal will have to be done in many places in the field of agricultural policy.

Grounds for Optimism

It is therefore natural that entirely state-controlled agriculture should be regarded as the only way of achieving the desired result as regards the maintenance of soil fertility, just as private enterprise and the profit motive are seen as the driving forces behind the exploitation that destroys the land. If the position is to be ameliorated there must undoubtedly be drastic measures of compulsion in areas where soil destruction has gone very far and where a primitive agricultural population is living on the borderline of starvation. But that other ways are possible too is shown by the results achieved in the U.S.A., mainly along the lines of information and voluntary co-operation, and also in this part of the world, where we have a settled farming population who are by no means impervious to new ideas.

World Resources and World Population

BY COLIN CLARK (Brisbane)

Are we moving towards over-population in relation to potential resources, and coolie standards of living for most people? Or can we rely complacently on science? The truth, says this eminent author, is not to be found in either position.

THE CONSERVATION of soil, forests, stream flows and natural biological equilibria is certainly one of the most important and urgent tasks which faces us today. In this respect Mr. Vogt (*Road to Survival*) is undoubtedly right. But the available evidence controverts his contention that the world will never be able to feed three billion (or even a larger) population. He has neglected or played down the possibilities of improvements in the technique of agriculture.

There is another factor which in the long run may be almost as important as improvement in agricultural technique, namely, the transfer of agricultural population by migration from over-crowded to fertile but underpopulated lands. But this will be an even slower and more difficult process.

The general conclusion is that the world will be able to support an increasing population for as far ahead as we can foresee. But it will not be on the basis of cheap food and glutted markets. The feeding of the world's population will necessarily involve a sharp and sustained rise in the price of farm products relative to the price of industrial goods. The agriculturalist must, and will, become a wealthier, more influential and more respected member of society. The industrial population (which in most countries can well afford to do so) will have to hand over a slightly larger proportion of its total product in exchange for the farm products which it consumes.

We are faced with the prospect of world population increasing at the rate of 1 per cent. per annum. At what rate can the supply of farm products be increased? Data from a number of countries show that the real quantity of farm products produced per man-hour of labour can increase at the rate of 1½ per cent. a year.

On the face of it, then, we have the problem beaten. A rate of growth of 1½ per cent. a year exceeds the rate of population growth of 1 per cent. a year. But there are four most important qualifications which will be mentioned in ascending order of importance:

(1) The demand for food *per head* is not constant, but increases with increasing real income and standards of living.

(2) The 1½ per cent. per year rate of improvement would not hold if an increased agricultural population were densely crowded on to a limited area.

(3) Farmers and farm workers in future will expect to work shorter hours and take longer holidays after the manner of the urban population; thereby reducing production.

(4) The whole comparison rests on the assumption that the farm population remains constant, whereas as a matter of fact, throughout a large part of the world it is in rapid decline.

It is not the law of diminishing returns or the lack of agricultural areas for cultivation which has caused the world food shortage, and may cause a worse shortage in the future; it is the lack of labour. It might be a fairer way of putting it to say that up to now, we have been

From "World Resources and World Population," Economia Internazionale, Genoa, February 1951

fed by the underpaid labour of peasants and agricultural labourers throughout the world; that the older generation expected this state of affairs, but that a new generation of countrymen is now growing up throughout the world who are not prepared to remain at their work unless they see in it economic opportunities comparable to those of the urban population. Better means of communication, laws and customs favouring social mobility, and, above all, the maintenance of full employment in industry, will all accelerate this tendency.

In effect, therefore, the countryman says to the urban world "What are you going to do about it?" We may, and doubtless will, intensify our search for technical improvements and may succeed in raising the rate at which they can be applied. But this alone will not provide for an improvement or even a maintenance of standards of living for an increasing world population, when the supply of agricultural labour continues to fall. In the course of years, however, we may be able to make very substantial improvements in production, even in face of declining total labour force if the labour is re-distributed, i.e., if the conditions of the world's economy are such as to admit a rapid growth of rural population in the most productive and hitherto least exploited parts of the world, and a diminution of rural populations in the most over-crowded areas.

Except in so far as we can solve our problem by such re-distribution, the only course remaining open to us is to allow the prices of agricultural produce to rise relative to the prices of manufactured goods and services to a point where they can offer to the agriculturalist throughout the world an income sufficient to induce him and his children to remain on the land. As has already been stated the relative rise in the price of farm products throughout the world will have to be substantial.

There are three factors now operating in the world which are making the loss of labour from agriculture considerably more rapid, and consequently the world shortage of farm products more marked than it would otherwise be. The first policy, which is from any point of view justifiable, is that of certain densely populated and under-developed countries in artificially accelerating the growth of their industries, (as in India, Russia and Egypt). With excessive density of settlement their agriculture is uneconomic and becomes increasingly so as population rises. Under the laws of increasing returns their industry will not become remunerative until it has reached a certain scale: it can generally only therefore be launched as a result of deliberate governmental intervention.

But the other policies pursued by Argentine, Australia, and some other food-exporting countries, are unjustified either from the point of view of the country concerned, or of the world as a whole. These are the policies of accelerating industrialisation, though there is no pressure of population on the land to justify it, but rather the reverse; and at the same time taking steps by artificial means to provide that their own consumers obtain food at substantially below world prices. These policies have the effect of discouraging agriculture by both taking away its labour and reducing its returns; and reducing supplies on the world market by encouraging their own people to consume more heartily than the world price would justify, while these countries obtain a number of industries which are generally grossly uneconomic and unable to compete with the rest of world.

Thinking about Strategy

In Planning Development of Backward Areas

P.E.P. contributes some realistic thought to the implications of divergent interests of developers and the countries needing development. Truman's Point-Four intentions and the British Colombo Plan are held to have over-simplified the practical problems.

RECENT DISCUSSIONS of the development of backward areas seem to share a too complacent assumption that the interests of the countries which would give aid and of those which would receive it are the same.

Failure to investigate to the full conflicts of interest which are in practice very real, and to show that the economically advanced countries may themselves have different views on the type of development which they are willing to support, is dangerous because it short-circuits discussion of several important issues. In particular it tends to preclude consideration of what may be called the strategy of development.

It seems obvious that nothing would be gained by spreading over too wide an area the limited material and technical aid which is likely to be made available by the industrial countries. In most backward areas no spectacular increase of production is to be expected until there has been a considerable amount of investment which does not itself yield directly any great increase of production. To do only a little development in any of the more backward areas is like laying a foundation and then not putting up a building.

Selecting the Areas

This raises the problem of selecting particular backward areas for early development. Since the resources which advanced countries will be willing to devote to development in other parts of the world are small in relation to the size of the tasks, and since there are valuable alternative uses for these resources at home, governments should obviously give the most careful thought to the question of what kind of development to support and where. It has been seen that the advanced countries have not complete freedom to choose the types of development which they will support in particular areas; in dealing with independent governments they can recommend, they can exercise a veto by refusing to support projects which are beyond the unaided resources of backward areas, but they cannot dictate. Nevertheless, the range of choice is still very wide.

Differences of emphasis on the various motives for supporting development will lead advanced countries not only to choose different programmes but also to select different areas in which to support development. There is at present a natural tendency to concentrate on political danger spots and on territories in which advanced countries have a particularly close interest. Today attention is concentrated on Southern Asia; tomorrow the Middle East may be the focus.

It must necessarily be a matter of judgment how much priority should be given to programmes whose prime object is to gain or keep the goodwill of particular areas for political or military reasons. In any case, the strength of such countries as Britain and the United States depends also

From "The Strategy of World Development," Planning, April 23, 1951, P.E.P., London (2/-)

on adequate supplies of raw materials. In the case of South-East Asia this consideration reinforces others which are more narrowly political; the Western Powers have reasons of self-interest for paying particular attention to the countries of South-East Asia not only because they are of military importance, but also because they supply important raw materials. But in other cases the need to increase supplies of particular primary products may call for investment in areas other than those which claim attention for immediate political reasons.

Colombo Plan Essential

At present the United Kingdom, Canada, Australia and New Zealand are committed to the Colombo Plan; in view of the strain of rearmament, it looks as if the Colombo Plan will absorb a very considerable part of the resources which these countries will be willing to provide for external development in the next few years. It would be a political disaster to attempt to scale down the Plan, even if anybody wishes to do so (as, indeed, it would be disastrous if the Plan collapsed for lack of support). But the extent of present irrevocable commitments does not absolve the governments from thinking ahead.

When development is considered as a means of increasing supplies of primary products, the choice of areas obviously depends on technical and economic considerations. Resources should be directed to places where they will produce the greatest returns in terms of desired goods. The same criterion may apply to the production of goods needed to raise standards of life in backward areas, provided that it is possible to ignore difficulties of distribution, so that what matters is how much is produced and not where it is produced.

It is not enough to make a simple comparison of physical yields. Such a comparison might suggest that the best way to increase the world's supply of rice would be to expand production not in Asia, but, so far as possible, in Italy, where the yield per acre is some three times as high as in most Asian rice-growing countries, or on the Gulf Coast of the United States. But it is necessary to take into consideration that increased production of rice in, say, the United States would "cost" decreased production of something else; in particular it would mean the use of land which might grow some other crop, perhaps of greater value. It may therefore be better to grow the extra rice in Asia in spite of low productivity there, because the rice may be very much more valuable than anything else which the same land and labour could produce.

At best it will take a very long time to make any considerable difference to standards of life wherever they are low at present. If advanced countries interest themselves in programmes designed to raise living standards they should draw up their immediate plans with the long run in mind. Since the job is bound to be a long one, it may be imprudent to seek quick returns now at the cost of a slower rate of progress in the future.

Need not Primary

Although the poorest countries seem to be in the greatest need of immediate attention, there is an advantage in giving priority of aid to other countries which have already passed the arduous first stages of development; their production can be increased faster than that of countries where development has to start from scratch. Once a country's production has been raised to a certain level, it should be possible for it to

make ever-increasing additions and improvements to its equipment from its own resources, without further outside help. If in the first place advanced countries foster development where it seems likely to become self-generating quite quickly, they can reasonably hope that they will be able to pass on fairly soon to promoting development elsewhere, and even that the countries which are aided first may in their turn contribute to the development of the countries next in order.

It has to be borne in mind that it is not possible to estimate the stage at which development in a particular area will become self-generating by reference merely to the present level of production. Even in places where enough is produced to make possible the use of resources to increase and improve equipment without restricting consumption below the level of subsistence, it may not be easy in practice to divert the resources. In the first place the people who can best afford to save part of their incomes, thus releasing resources for purposes other than production for consumption, may not want to do so; the richer inhabitants of a backward country may spend the whole of their incomes and save nothing. And even if some people do save, it may be difficult to make the passage from saving to the use of resources for providing equipment or carrying out development projects.

To do this, suitable financial institutions are needed. In many backward countries it may take some time before they can be established. Men with the necessary skill may have to be trained, and confidence in the honesty of financial institutions must be built up before people will be prepared to part with cash or valuable assets in exchange for bits of paper.

Ends and Means

These are questions of means. But the most important decisions of policy are in the realms of ends. What should be the balance between development designed to increase the supplies of primary products wanted by the advanced countries and development designed to improve conditions of life in backward areas?

It would be an aid to judgment if advanced countries were to consider any use of their resources in backward areas which is intended for their own economic benefit as falling into the same category as domestic investment. This would prevent exaggerated ideas of the costs they are incurring for the promotion of altruistic objects.

FREER TRADE FOR JUGOSLAV PEASANTS

The system of compulsory deliveries of crops by peasants has failed. The number of cattle fell 11 per cent. between 1949 and 1950, pigs 10 per cent, sheep 2 per cent. Last year's drought forced the farmers to slaughter more livestock than usual, but the basic reason for the decline in livestock population is the system of compulsory deliveries. The Government therefore announces the abolition of the compulsory delivery to the State of meat, milk, potatoes, beans, hay and straw. The compulsory delivery of bread grains, rice, fats and wool will continue.

Consequential changes in rationing follow. Rationing in future will be restricted to bread, fats, sugar and soap. Ration-card holders will procure all other foodstuffs at market prices against cash coupons which will entitle them to an 80 per cent. rebate.

(*Note*: Despite pressure towards collectivisation of farms, peasants have continued to control 75 per cent. of the arable land of Jugoslavia).

From statement by Osman Karobegovic, President Council for Trade, in "Borba," Belgrade, May 5, 1951

U.K. Trade: First Quarter 1951

Exports £15 millions Down: Imports £153 millions Up

(1) Exports

The value of exports of manufactured goods in the first quarter (£506.5 million compared with £521.3 million in the fourth quarter) was 8 per cent. above the 1950 average. Exports of raw materials (£23.9 million) showed a reduction of 9 per cent. compared with last year's average, coal exports being reduced by more than a half. For food, drink and tobacco the first quarter's exports were 11 per cent. above the 1950 level.

Among manufactured goods the increase compared with the 1950 average was due mainly to the high value of textiles exports; the quarter's total of £127.1 million was 23 per cent. above last year's average. Exports of metal goods (£269.7 million) only just exceeded the 1950 level, and for other manufactured goods (£109.7 million) the first quarter's total was 11 per cent. higher.

The increase compared with last year was shared by all groups of textiles exports but it was most marked for woollen and worsted yarns and manufactures, the quarter's total of £46.4 million being 32 per cent. above the 1950 average. Exports of wool tops, although 20 per cent. lower in quantity terms, were 36 per cent. higher by value; shipments of yarns showed a small increase in quantity while the quantity of piece-goods exported exceeded last year's average by 14 per cent.

The total value of cotton yarns and manufactures exported in January-March (£46.8 million) was just below the peak fourth quarter figure but 18 per cent. above last year's average; the quantity of yarns exported was 11 per cent. above the 1950 level and total piece-good exports (212 million square yards) were 3 per cent. higher. In the remaining textiles groups the quantities of both artificial silk and linen piece-goods exported exceeded the 1950 average.

The total value of exports of vehicles (including locomotives, ships and aircraft) in the first quarter (£105.3 million compared with £107.1 million in the preceding three months) was 4 per cent. above last year's average. The number of new cars and chassis exported in March was 27,590 and this brought the quarter's total to 88,821, which was 11 per cent. below the 1950 average; exports to Australia in March fell to 7,012 and the quarterly total (25,695) was 16 per cent. below last year's average. The number of commercial vehicles and chassis exported in the quarter was 6 per cent. below last year's level, the March figures being 10,040. The number of agricultural tractors exported in the quarter (26,724 valued at £8.9 million) was 27 per cent. above the average for 1950.

The total value of machinery exported in the quarter (£78.9 million) was just below the 1950 average and iron and steel exports (692,000 tons valued at £37.3 million) were 10 per cent. below the average quantity exported last year. The higher value of exports of non-ferrous metals (£21.2 million compared with an average of £19.2 million for 1950) was due largely to increased exports of partly worked gold which, in January-March, amounted to £1.9 million.

From Board of Trade Journal, London, April 21, 1951

Among the remaining groups of manufactured goods, exports of chemicals, drugs, dyes and colours (£29.9 million) did not reach the high fourth quarter level, but were still 12 per cent. above last year's average. For miscellaneous manufactures the quarter's total (£32.6 million) practically equalled that in the fourth quarter of 1950 and was 10 per cent. above the average for the year as a whole.

(2) Imports

The value of imports in the first quarter was £848.2 million, an increase of £153.7 million compared with the previous quarter and £197.4 million above the average for the whole of 1950, the greater part of the rise being due to increased prices. The outstanding rises occurred among raw materials, the total value for this class (£387.9 million) being 56 per cent. above last year's average. For raw wool, etc., the value of imports in the first quarter (£98.2 million) was more than double the 1950 average, although the quantity of sheep and lambs' wool included (86,400 tons) was only 10 per cent. above the 1950 average. Imports of rubber (£36.9 million in the first quarter) were also more than double the 1950 average, the quantity (76,900 tons) being over one-fifth greater. The quantity of raw cotton imported (107,000 tons) was 5 per cent. below last year's average, though the value (£58.6 million) was 55 per cent. higher.

The value of oils, oilseeds and nuts imported in March was high at £25.4 million, bringing imports in the quarter to £61.6 million, 17 per cent. above the 1950 average. Large arrivals of unrefined whale oil (46,000 tons in March, valued at £4.7 million) were mainly responsible for the high figure for the month, although imports of crude petroleum (280 million gallons, valued at £9.6 million) were also high, being 41 per cent. more in quantity.

Imports of food, drink and tobacco in March amounted to £98.3 million, giving a total for the first quarter of £283.0 million, 11 per cent. more than the average for the year 1950. Imports of tobacco in the quarter were seasonally low and the value of the miscellaneous foodstuffs group (£44.9 million, compared with £57.9 million in the fourth quarter 1950) was slightly below last year's average mainly on account of small supplies of unrefined sugar. The total value of imports of meat (£50.0 million) was just above the 1950 average.

The rise of 23 per cent. in the value of manufactured articles imported in the first quarter (£173.3 million) compared with the average for last year was the result of increases for most of the main groups. Imports of refined petroleum (657 million gallons) were slightly lower in quantity but the value in the first quarter was above the average for last year.

There was an increase of nearly three-quarters in the value of imports of paper and board; supplies of newsprint (29,000 tons) were 17 per cent. below last year's average but the quantity of other paper and board supplies was up by nearly a quarter. Among non-ferrous metals smaller quantities of lead, zinc and aluminium compared with the 1950 average were more than offset, partly by price increases and partly by rises in other items; supplies of copper in the first quarter (93,000 tons) were 17 per cent. more than last year's quarterly average. Among textiles imports, the values of both cotton yarns and manufactures (£10.2 million) and woollen and worsted goods (£8.5 million) were over 40 per cent. above the averages for 1950.

Digest Book Review

The Levelling of Incomes Since 1938

By Dudley Seers

"The purpose behind these essays," says the author in his Introduction, "is to try to find out how much the pre-war inequality of income has been reduced by war-time and post-war economic developments . . . I am afraid they only tell a small part of the story, much less (than) may appear at first sight . . . the variety of economic experience is enormous, even within social classes. If one looks around at the fortunes of families one knows personally, there may seem to be hardly any consistent pattern."

By collation of National Income White Papers with various price indexes, Mr. Seers seeks to map the wood in spite of the trees. In doing so he warns us that only incomes are considered, capital gifts being excluded.

The first two essays (in which much of the ground covered has already been reviewed in the **Economic Digest** for October 1948—Vol. II., No. 2, pp. 82-83) deal with variations in the cost of living for middle class and working class, 1938-1945 and 1946-1949. Taking 1938 as 100, the following is a skeleton result:

	1939	1945	1949
Middle Class	103	164	201-2
Working Class	102	149	181-2

Price movements have favoured the working-class relative to the rest of the community, which Mr. Seers, following taxation phraseology, calls a "progressive" effect. The highest progressive effects were experienced in 1940-41, 1944-45, and least in 1947-49. Relative decreases or increases in food and drink prices are adduced as the chief cause of these variations.

An interesting appendix deals with the effects of income tax; a sample of the pre-tax and post-tax incomes necessary in the post-war years to maintain a living standard equivalent to that of 1938 is shown in tabular form. An abridgement (a married man with 2 children is the criterion adopted) appears as follows:

Income in 1938 (£)		*Corresponding Income to-day*	
Pre-tax	*Post-tax*	*Post-tax*	*Pre-tax*
200	200	360	345
400	398	780	900
700	654	1325	1760

(The pre-tax income of to-day which corresponds to £200 in 1938 has had the family allowance for the second child deducted from it).

"Perhaps it is necessary to point out that I am not suggesting that people *should* have the same real incomes as pre-war. The commitments of the economy to produce higher exports, more social services, more arms, and more investment, almost fully absorb the great increase of output over pre-war, so that consumers' real incomes are hardly in aggregate larger . . . My purpose is to provide a rough yardstick, not a proposed salary-scale. This yardstick shows that the proportionate increase in income required to maintain 1938 standards increases sharply the higher we go up the income scale."

Oxford: *Basil Blackwell, 5s. nett.*

Income Distribution Changes

The third essay reviews methods of measuring income inequality, and applies them to the period 1938-47. The Pareto coefficient, applying only to income above £250, shows a progressive decrease in inequality up to 1946, then a slight swing back in 1947. This last is owing to technical faults in the coefficient, and is unreliable as an index to actual conditions.

Turning to Lorenz curves (in which percentages of total income received by the "top so many per cent. of incomes" are plotted), these are claimed to provide a more reliable indication. These show that in 1938 the top 20 per cent. of incomes received 50 per cent. of the total post-tax incomes; in 1947, they received approximately 42 per cent. The pre-tax distribution change is less, pointing to the strong element of re-distribution in the tax-structure. At the other end of the income scale, the lowest 50 per cent. of income receivers have not gained substantially in pre-tax distribution; having risen only from 25 per cent. to 26 per cent. of total income. But post-tax income has risen from 27 per cent. to 30 per cent of total, again marking the increased progression of taxes.

Changes in Kinds of Income

The disparity of the "loss" in the share of the top 20 per cent. and the "gain" in the share of the bottom 50 per cent. is then partly explained in the fourth essay, which deals with changes within separate classes according to *source* of income. A most revealing table is here shown in full:

Percentage changes in Pre-tax Private Income, 1938 to 1949

Distributed Property Income	+32
Undistributed Corporate Profits	+255
Property Income ...	+83
Professional Earnings ...	+105
Income from Farming ...	+355
Sole Traders' Profits ...	+66
Mixed Income ...	+101
Wages	+147
Salaries	+103
Forces' Pay	+214
Work Income ...	+132
Social Security Benefits	+157
War Pensions, etc. ...	+221
Social Income ...	+167
Total ...	+117

Reduced to 1938 prices, the percentages shares in post-tax income for the two years are as follows:

Percentage share in post-tax personal income at 1938 prices

	1938	1949
Wages ...	37	47
Salaries ...	23	22
Forces' Pay	2	3
Work Total	62	71
Social Income	6	9
Mixed Income	12	10
Property Inc.	20	10
	100	100

"When price changes are taken into account, the rise in the wage-share becomes thus even more evident. The major change is an effective transfer of some 10 per cent. of the real produce from distributed property income to wages,

this change having far more influence in reshaping the pattern of real income than any other. Tax changes and, to a lesser extent, price changes seem to have been the most important causes, with the movement of labour into manufacturing as a subsidiary cause."

The wage-earning class is then sub-divided into groups according to sex, age and skill, and the changes within these sub-groups are investigated. The overall rise in earnings in industry 1938-1949 was 129 per cent. But by sex the increases were :

Men	107
Women ...	142
Male Juveniles ...	130
Female Juveniles	179

If, however, the pattern of expenditure is taken into account, the differences in real income change is not so startling, particularly if the high price increase for goods bought out of youths' spending is considered; but in real terms the difference between adult and juvenile females' earnings has actually fallen, despite the higher effective price index for girls' spending. There has, it is also pointed out, been some narrowing of the prewar gap between the living standards of family men and bachelors, due to tax changes, price changes in favour of necessaries, and family allowances.

The changes according to skill show a pronounced drop in the premium for the higher grades of worker :

Weekly Wage-Rates
(at 1939 prices)

	1939	1949
Bricklayers ...	72/9	68/4
,, Labourers	54/6	55/1
Engine Fitters	67/6	58/3
,, Labourers	51/4	49/4
Rail Firemen...	68/7	60/10
,, Shed Labrs.	47/7	51/2

"This comparison actually understates the fall in real differentials for skill, since such margins tend to be spent on more luxurious goods than does the general wage. As an extreme example, the prewar differential in engineering" (16/2) "would have bought 3 times as much beer, or nearly 4 times as many cigarettes, as the 1949 differential" (8/11).

Differentials in salaried occupations show the same decline. A Civil Service Principal in 1949 could afford only the living standard enjoyed pre-war by a higher clerical officer (two grades lower). The difference in starting salaries between certificated and graduate teachers had shrunk, the real bonus to the graduate having become less than half prewar. Real gain from promotion in the Services has fallen, the pay of a Field Marshal having fallen absolutely.

Among professional earnings, greater rigidities in some professions have led to great variations in real change — many dentists no doubt receiving trebled or quadrupled incomes, many lawyers receiving smaller incomes.

For sole traders data are incomplete or non-existent, but builders among others would appear to have received greatest profit increases, garage proprietors among others smallest.

Property Income

Gross dividends per unit of capital have risen for most shareholders, a mixed portfolio showing an increase of rather over 20 per cent. since 1938. Rent is unchanged if taken gross of repairs, but has fallen considerably net of repair costs, being negative on some properties (capital gains on re-sale with vacant possession are excluded). Taking price into account real incomes in

shares have fallen, an effect somewhat cushioned when undistributed profits are added in (the author is careful to point out that these are not "nobody's income"). In general, equity shareholders were better protected from price and tax increases than holders of other kinds of security. Landlords' real income has clearly fallen more than bondholders'.

"We now come to the question whether the tendencies towards equality noted above operated only in the war, or whether they have been continuing since. . . Evidence previously collected suggests that prices moved against wage-earners after 1946, but we must also take income changes into account. The composite picture is more difficult to put together . . . since the changes are smaller relative to possible errors in tax and price estimates."

Between 1946 and 1949 property income may have fallen from 23.8 per cent. to 23.4 per cent. of total pre-tax income. Sole traders' profits show a fall from 7.1 per cent. to 6.4 per cent., but inventory gains may vitiate this estimate. Wage-share, allowing for an artificial low in 1946 owing to incomplete demobilisation, shows a fall from 38.4 per cent. to 37.8 per cent. Professional earnings and income from farming show relatively substantial rises. Wages for skilled workers increased by greater amounts than those for unskilled workers, but reduced to 1938 prices, this relative increase was not sufficient to maintain wage-differentials.

"The general conclusion we reach, therefore, is that all the main tendencies towards equality continued to operate during 1946-1949, except that the position of families and those living on old-age pensions grew relatively worse after 1947, and for those on fixed incomes the better-off tended to gain slightly compared to the less well-off. However, the general levelling tendencies seem to have been less rapid . . . the pace of change seems to have slowed still further in 1948 . . . and there was a clear reversal of the previous consistent tendency for wage-earners to gain at the expense of property incomes." —A.B.C.

REALLY GETTING DOWN TO IT

A small sample of how "rigid economy" is practiced in some government offices appears in a special study recently released by the Department of Agriculture from which we quote briefly as follows:

"Young married men and women have a larger amount of sports and casual clothing in their wardrobes than older people. On the other hand, married men above forty years of age, own more dress hats than younger men and, in addition, have more special outfits for riding, fishing and hunting. The older wives, on their part, own more fur coats, house dresses, and hosiery than the younger wives . . ."

This edifying disclosure, together with much more along the same line, is, we are informed, the fruit of one of a series of surveys being conducted by the Agriculture Department's Bureau of Human Nutrition and Home Economies. A government really in earnest about reducing non-essential expenditures would be cutting out everything of this kind.

From Monthly Letter, National City Bank of New York, May 1951

Worth Reading

Cartels and Competition, by **Dr. Hans Brems** (*Copenhagen*), *Weltwirtschaftliches Archiv, Hamburg, Band* 66, *Heft* 1, 1951. A systematic study, most interesting when it discusses the conflict in the field of research between the improved facilities provided by grouping and the disposition to remain static in the absence of keen competition.

The Trend of Credit Policy, by **Per Jacobsson**, *Quarterly Review, Skandinaviska Banken, Stockholm, April* 1951. The conclusion of this study is that 'it must be in Europe's best interest that the American economy, which is of such great importance for the movement of world prices, should ensure, even under conditions of re-armament, a high degree of stability in matters of credit and money'.

The Economics of an English Breakfast, by **Dr. W. P. Blount**, *Progress, Lever Brothers and Unilever Ltd., London, Spring* 1951. A study of poultry and pig husbandry, with special reference to the experimental poultry farm set up by British Oil and Cake Mills Ltd., at Stoke Mandeville.

The Equity in Eclipse, by **Harold Wincott**, *Lloyds Bank Review, London, April* 1951. A brilliant assessment of the revolution which has proceeded since 1939. The characteristic of the post-war overall recovery is that 'the public sector of the economy has received more than its fair share of the new capital and the private sector less'.

The Ports of Western Europe, by **W. H. de Monchy**, *Quarterly Review, Amsterdamsche Bank N.V., Incasso-Bank N.V., Amsterdam.* Scope is indicated by the title. The author is Managing Director of the Holland America Line.

The Role of the British Life Assurance Companies in the Capital Market, by **G. Clayton** (*Liverpool University*), *Economic Journal, London, March* 1951. An elaboration of a paper read at the British Association's annual meeting in 1949. It is suggested that it would be consistent with the companies' duty to policy holders to 'foster their with-profit business and invest more in equities', reducing the risk by 'spreading their investments geographically and industrially'.

Can Federal Expenditures be Cut? *Monthly Letter, National City Bank of New York, April* 1951. Summary of proposals of a Committee on Federal Tax Policy whereby economies amounting to $10,000 million could be made in the $71,600 million budget for fiscal 1952.

Western Europe Faces Re-armament, *Quarterly Survey, Banque de Bruxelles,* 1951, *No.* 1. There is no glossing over of difficulties here. 'The economy of armed peace is a problem of equilibrium and preparation which is not easy to resolve'. A new economic entity, 'Atlantic Union', seems inevitable.

High Prices and Company Profits, *Review, Institute of Public Affairs, Melbourne, Australia, February* 1951. 'The total elimination of profits over 5 per cent. on shareholders' funds for public companies engaged in manufacturing would not reduce the cost of goods by more than 1d. to 2d. in every £'s worth of goods'. 'In the final analysis 80 per cent. of costs are labour costs'.

The Inappropriateness of Simple 'Elasticity' Concepts in the Analysis of International Trade, by **T. Balogh** and **P. P. Streeten**; Exchange Rates and National Income, by the same authors, *Quarterly Review, Banca Nazionale del Lavoro, Rome, December,* 1950.

Italy's National Income, by **Eugenio d'Elia**, *Quarterly Review, Banca Nazionale del Lavoro, Rome, December* 1950. The recent trend of Italy's national income (1938 = 100) is 78.4 (1947), 90.7 (1948), 96.5 (1949), but between 1938 and 1949 population rose by 5.4 per cent.

Australia—Its Resources and Development, *National Bank of Australasia Ltd., Melbourne.* This booklet (from which a short quotation is given elsewhere in this issue) surveys the Commonwealth as a whole and each of the States separately.

Union of South Africa: National Income and Production Indices, 1939-1950, *Supplement to Monthly Review, Standard Bank, Cape Town, March* 1951. This shows National Income advancing from £365 million (1938-9) to £950 million (1949-50). In terms of an index of 1000, representing the average of the five years before 1938-9, the corresponding figures are 1107 and 2884. Adjusted index figures, taking into account the retail price index, are 1108 and 1810. The index of production (1934-8 average = 1000) shows stepping up from 1212 (1939) to 1789 (1948), 1854 (1949), 2036 (1950), with a note that the last two figures are provisional.

Economic Policy for Western Germany, by H. W. BEUTLER, *The Times Review of Industry, London, May* 1951. The author is Director General of the Federation of German Industries. Inadequate post-war investment in basic industries and a formidable adverse balance of trade are Germany's problems. A cry from the heart for raw materials.

Australia and International Economic Equilibrium, by SIR DOUGLAS B. COPLAND; **New Zealand and International Economic Equilibrium**, by C. G. F. SIMKIN; *Economia Internazionale, Genoa, February* 1951. The authors will be recognised as leading professors at Canberra and Auckland respectively.

The Lancashire Cotton Trade from the Great Inventions to the Great Disasters, by GODFREY ARMITAGE, *3 Didsbury Park, Manchester, 20.* This was an address by a cotton spinner to the Manchester Literary and Philosophical Society. It tells vividly the story of the rise and fall of Lancashire's cotton industry. Notable as an example of the rare art of narrative.

The Canadian Scene, *Business Review, Bank of Montreal, April* 23, 1951. An analysis and review of Canada's budget of $3,700 million.

Textile Fibres Old and New, *Monthly Review, Bank of Nova Scotia, Toronto, March* 1951. A good survey, and timely in view of the prevailing prices of wool and cotton.

Capital Expenditure by Manufacturing Industry in Great Britain During 1948 and 1949, *Board of Trade Journal, London, April* 21, 1951. First reports arising out of an enquiry undertaken by the Board of Trade, Ministry of Supply, Admiralty, Ministry of Works and Ministry of Food, covering a sample of 3,760 establishments.

Survey of Paper Production and Supplies in 1950, *Board of Trade Journal, London, April* 21, 1951.

Japan's Future Place in World Trade, *Board of Trade Journal, London, April* 21, 1951. The author is H.M. Commercial Minister in Tokio.

Monetary Survey 1950-51, *Midland Bank Review, London, May* 1951. Continuing the series, initiated a year ago, of 'comprehensive, systematic reviews of the course of monetary affairs', and doing it exceedingly well. A short extract appears elsewhere in this issue.

Britain's Glasshouses—A Developing Industry, *Midland Bank Review, May* 1951. Survey of a department of agriculture whose output last year was valued at £25 million—nearly 3 per cent. of the gross value of the country's agricultural production.

"PROBLEMS ON THE WAY TO ATLANTIC UNION"

Mr. Herbert Agar will address a meeting of The Economic Research Council on this subject on Wednesday, June 6, at 8 o'clock, in the Angus Room, 55, Park Lane, London, W.1. Non-members will be welcome if they will notify their intention to be present to the Secretary, Economic Research Council, 18, South Street, London, W.1. (GRO. 4581).

New Books Reviewed

'National Insurance and Assistance in Great Britain', by David C. Marsh, Sir Isaac Pitman and Sons Ltd., London, 20/-

The appearance of this book is opportune at a time when the question of the adequacy of social benefits and of the extension or limitation of social services is much to the fore.

The author begins by tracing the history of social security developments from the Elizabethan Poor Law of 1601 to the National Insurance Act of 1946.

Part II is an explanation of how 'New Model' National Insurance works and how it is administered and financed. Other chapters deal with National Assistance and the National Health Service. Finally the author discusses the economic aspects of Social security.

He calculates that of every £1 paid in taxes, direct and indirect, approximately 3/- is used for social security, and that the proportion of personal income set aside for this purpose ranges from five to nine per cent. on the basis of three typical examples.

Criticism is made of the method of finance:

"Under our present complicated system of paying for social security it is not easy to distinguish precisely how much each individual contributes to the communal pool; all that can be claimed with certainty is that a very significant proportion of income has to be set aside. Would it not be preferable therefore to simplify the method of meeting the cost of social security so that each individual could estimate fairly accurately what proportion of his income and his work he has to devote to communal purposes? For example, in New Zealand the social security funds are obtained by means of a social security tax on all incomes. On every £1 earned by individuals or companies or any other form of organisation, 1s. 6d. is deducted for social security purposes. That is to say there is a social security tax of 1s. 6d. in the £1 of all income, and this yields almost sufficient funds to finance their comprehensive schemes. If this system were adopted in this country it would undoubtedly be necessary to reduce the existing rates of, for example, income tax, but it would simplify considerably the method of financing social security."

His conclusion is:

"Social security is inextricably linked with economic policy and must be considered as a part only of the economic system of the whole country. The assumption underlying Lord Beveridge's plans was that social security could operate successfully only if there were a sound national economic policy to prevent mass unemployment. In other words income can be redistributed only if it is available, and the greater amount the easier it is to distribute it justly. By securing for all a minimum share of the wealth produced social security establishes security for all, but the degree of security which can be obtained depends on the amount of wealth which is produced. It is therefore upon the value of the goods and services manufactured and provided by the whole working population that the amount of social security to be attained ultimately depends. It is this simple fact which is too often ignored by those who demand radical changes in social policy."

The Nationalised Industries, An Analysis of the Statutory Provisions, by D. N. Chester, Published for Institute of Public Adminstration by George Allen and Unwin Ltd., London, 7/6.

Considerably revised edition of a book first published in 1946. Its business is to record the precise constitutions of the industries nationalised since 1945, including the British Broadcasting Corporation which is clearly in the same category. But it is not now limited to those industries. It includes pre-war corporations such as the Port of London Authority. Notes on white papers are included, and there is a useful bibliography. An essential reference book.

Statistical Digest of the War. Prepared in the Central Statistical Office, H.M. Stationery Office and Longmans Green and Co., London, 32/6.

This is a vitally important book in the series of studies comprising the History of the Second World War. It is complementary to the *British War Economy* by W. K. Hancock and M. M. Gowing. Like its predecessors, it has all the virtues and none of the usual vices of an official publication.

Publications of United Nations and Specialised Agencies

Statistical Yearbook 1949-50. Prepared by the Statistical Office of the United Nations, Department of Economic Affairs, New York, 1950. Obtainable from H.M. Stationery Office, £2.

This is the second issue of the United Nations Statistical Yearbook, which has already proved an indispensable tool for all serious students of international affairs. In addition to a very wide field of economic and financial statistics, it also includes data relating to population and to social and cultural subjects. The Yearbook comprises 166 tables covering some 250 countries. Of special interest in the present time of shortages are the commodity tables, which contain production figures for the years 1930 to 1949. Nearly all the materials now under discussion in Washington are being listed, the only exception being cobalt. The section on external trade contains a table on the value in national currencies of the imports and exports of nearly 140 countries and another showing the volume of trade. The transport statistics have been expanded. These few examples indicate that the Yearbook is a real mine of information.

Demographic Yearbook 1949-50. *United Nations. New York* 1951. 558 *pages. Obtainable from H.M. Stationery Office,* £2:0:0.

This Yearbook is designed for the specialist in population questions and deals with population, migration and vital statistics. A special table shows world population trends. In the present (second) issue emphasis is laid on natality and marriage statistics, to which 21 tables are devoted.

Review of International Commodity Problems 1950. *United Nations, New York, January* 1951. *Obtainable from H.M. Stationery Office.*

This is a useful annual publication. It brings out clearly how quickly the picture in the commodity field changed from a fear of possible surpluses in the first half of the past year to shortages and high prices in the second half. Further chapters deal with inter-Governmental consultation and action, commodity agreements and full employment, and the summoning of commodity conferences. In addition, the Review contains a short survey of the current situation in 25 commodities now in short supply and reproduces a number of documents relating to the commodity field.

Domestic Financing of Economic Development—Methods of increasing domestic savings and of ensuring their most advantageous use for the purpose of economic development. United Nations, New York. Available from H.M. Stationery Office.

This report has grown out of a meeting of experts held at Lake Success in October 1949. It stresses that improved financial habits and institutions can promote the utilization of existing resources for economic development and prevent unnecessary hardships and dislocations arising in the process. Methods to achieve this end are discussed in detail.

FAO Commodity Bulletin No. 19: Citrus and Dried Fruit. Washington, December 1950. The first survey of this interesting field.

FAO Commodity Reports: Rice. Washington, December 1950.

FAO Commodity Reports: Fats and Oils, Washington, December 1950.

Printed and published in Great Britain for The Economic Research Council, 18 South Street, London W.1 by The Industrial Press (Southend) Ltd., 72a & [illegible] Bournemouth Park Road, Southend-on-Sea, Essex